

Building the 'Go-To' bank



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Barclays Bank PLC is a wholly owned subsidiary of Barclays PLC. There are no differences in the strategy of Barclays PLC and Barclays Bank PLC. The term Barclays PLC Group or the 'Group' means Barclays PLC together with its subsidiaries and the term Barclays Bank PLC Group means Barclays Bank PLC together with its subsidiaries. 'Barclays' and 'Group' are terms which are to refer to either of the proceeding Groups where the subject matter is identical.

The strategic Report was approved by the Board of Directors on 3 March 2014 and signed on its behalf by the Chairman.

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Unless otherwise stated, the income statement analyses compare the 12 months to 31 December 2013 to the corresponding 12 months of 2012 and balance sheet comparisons, relate to the corresponding position at 31 December 2012. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary online at www.barclays.com/annualreport. A hard copy can be provided on request by contacting Barclays Investor Relations, Barclays PLC, 1 Churchill Place, London E14 5HP.

Adjusted profit before tax and adjusted performance measures have been presented to provide a more consistent basis for comparing business performance between periods. Adjusted profit before tax is explained further on page 24 and defined in the online glossary at www.barclays.com/annualreport

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, original and revised commitments and targets in connection with the Transform Programme, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations 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, United States, 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 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 2012, and in the Form 6-K (Film No. 131097818) dated 16 September 2013, both of which are available on the SEC's website at <http://www.sec.gov>.

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 (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.



‘We have made good progress in 2013 and we start 2014 in a better position than for several years. While recognising there is much more to do, we have every reason to feel positive about our prospects and confident that we will become the ‘Go-To’ bank for all our stakeholders.’

2013 has been a year of significant change for Barclays. A year ago we set out the outcome of our strategic review and our Transform plan to make Barclays the ‘Go-To’ bank for all our stakeholders. We continue to take steps to de-risk the business, strengthen the balance sheet, increase the efficiency of our operations and are making good progress against our plan.

Our 2013 results clearly demonstrate the benefits of the diversity we enjoy in the Group, as well as the strength of our core franchises. While impacted by the restructuring and de-risking activity, underlying business performance has been resilient, with adjusted income of £28.2bn and adjusted profit before tax of £5.2bn. Our core franchises remain strong, with UK Retail and Business Banking, Barclaycard, UK Corporate Banking, and within the Investment Bank our Equities and Investment Banking businesses all delivering good performances in 2013. Important progress has also been made in repositioning our African, European and Wealth businesses, although further work is required to get returns to acceptable levels. Our Fixed Income, Currency and Commodities business in the Investment Bank saw revenues fall, in line with our European peers, as market conditions remained subdued.

We are making good headway across the financial commitments we set out as part of our Transform plan as well as on de-leveraging to meet the PRA's revised target. I am pleased by our progress on RWAs and leverage. We have been able to move more quickly than anticipated in managing down CRD IV RWAs, bringing us a little below our Transform target well ahead of the 2015 timeline. Through rigorous analysis and focus, we have also virtually achieved the PRA leverage target six months in advance of the June 2014 deadline.

We have invested considerably in transforming our businesses. In the months ahead we expect to see the benefits of this coming through. We narrowly missed our cost guidance for 2013, largely due to a £331m increase at year-end in certain litigation provisions, but the true operating performance of Barclays was on track. Costs are a key area of focus for us and we remain committed to our 2015 Transform cost target of £16.8bn. Compensation for key talent is one area that we were prepared to invest in strategically. Our aim is to deliver a greater share of the income we generate to shareholders while remaining competitive on pay. Although profits for 2013 were down, the 38% reduction in incentives in the previous two years had begun to cause demonstrable damage to our business through increased attrition, with a near doubling of resignations of senior staff in the US for example. We concluded that a 2013 incentive pool of £2,378m was appropriate. Whilst this is up 10% on the final 2012 incentive pool, before adjustment for risk and conduct events it is down 18% on 2012 and remains 32% below the pool level in 2010 when we started to reposition Barclays' remuneration. This was a difficult decision, but the right one for the long term interest of our shareholders.

We have also made progress against the two non-financial commitments we made last February. The first of these, culture change, and in particular the process of embedding our Purpose and Values throughout the organisation, is going well. Every colleague has completed a mandatory training programme, and we have integrated our Purpose and Values into the day to day management processes of the Bank. We have developed and published our new Code of Conduct which every colleague must abide by and attest to annually.

The recent publication of our Balanced Scorecard for the Group addressed the second non-financial commitment we made, establishing the critical final component in our leadership framework. The Balanced Scorecard sets out a clear description of what we want Barclays to be, with eight clear targets out to 2018 against which our progress can be assessed by all of our stakeholders. The scorecard, alongside our Purpose and Values, is now embedded in how we measure and reward individual and business performance. This is a unique and powerful tool that aligns the organisation behind our Transform goals.

We begin 2014 in a better position than for several years. 2013 showed the tremendous value of the breadth and diversity of Barclays' earnings profile, and we have seen continued evidence of the strong fundamentals which are essential for longer term growth. We have started to put our legacy issues behind us, and have greater clarity on what the future holds, particularly in terms of regulation. With my leadership team in place and building on the progress we have made on our Transform programme in 2013, we will continue to adapt and optimise our business, reaping the substantive benefits of our work in 2014, 2015 and beyond.

While we have much more to do and we expect the operating environment to remain challenging, we have every reason to feel positive about our prospects and confident that we will become the 'Go-To' bank for all our stakeholders.



Antony Jenkins
Group Chief Executive

Our purpose



What is Barclays for?

Becoming the 'Go-To' bank will be realised with a renewed focus, fuelled by this common purpose. We exist for our clients and customers, for our shareholders, our colleagues, and other stakeholders – we exist for the purpose of helping people achieve their ambitions.

Helping people – in the right way – means how we do it becomes as important as what we do.

Our values



How will Barclays do that?

Respect means respecting and valuing those we work with – our colleagues and other stakeholders. It is about building trust and promoting collaboration.

Integrity demands we act fairly, ethically and honestly. This requires us to have the courage always to do the right thing, never tolerating the wrong thing, and to be accountable for our decisions.

Service means ensuring our clients and customers are always uppermost in our minds. We must strive to exceed their expectations so we automatically become their 'Go-To' bank.

Excellence calls on us to use all our energy, skills and resources to deliver great service for our customers and clients and outstanding sustainable results for shareholders.

Stewardship is about being determined to leave things better than we found them, so we constantly strive to improve the way we operate as an organisation and the impact we have on society.

‘We will not be able to generate sustainable returns over the long term unless we act at all times with good values.’

The landscape for banks has fundamentally changed and will continue to evolve in the coming years. We believe these changes are not cyclical but represent a structural shift. Our Transform programme, launched in 2013, will reshape Barclays to generate sustainable returns and to meet the needs of all of our stakeholders.

Market and operating environment

Barclays is a global financial services provider with our home markets in UK, US, and South Africa, and distribution and operations in a further 47 countries.

Banks are invariably exposed to the economies and markets in which they operate. This exposure ranges from mortgage lending (dependent on the ability of borrowers to repay and house price valuations) to corporate advisory (which may reflect business confidence in the economy). Prior to the financial crisis, global growth was supportive with banks well-positioned to benefit from their exposure to the upward trajectory of the global economy.

Global economic growth has faltered in recent years. This has prompted unprecedented monetary policies across central banks, for example quantitative easing and near zero interest rates. This policy response has, in turn, posed new challenges for banks such as compressed interest margins.

While global economic growth remained below the long-term trend in 2013, we saw improved consumer confidence and business sentiment in both the UK and US. Even with these grass root recoveries emerging in two of our home markets, we remain cognisant that global economic growth is expected to be subdued for a prolonged period.

Financial regulatory frameworks are evolving, as global regulators continue to respond to the issues that emerged during the financial crisis. It is clear that intensive and intrusive regulation is here to stay. Prudential reforms ranging from the UK Banking Reform Act to the US Dodd Frank Act are fundamentally changing the way that banks manage their capital, liquidity and risk.

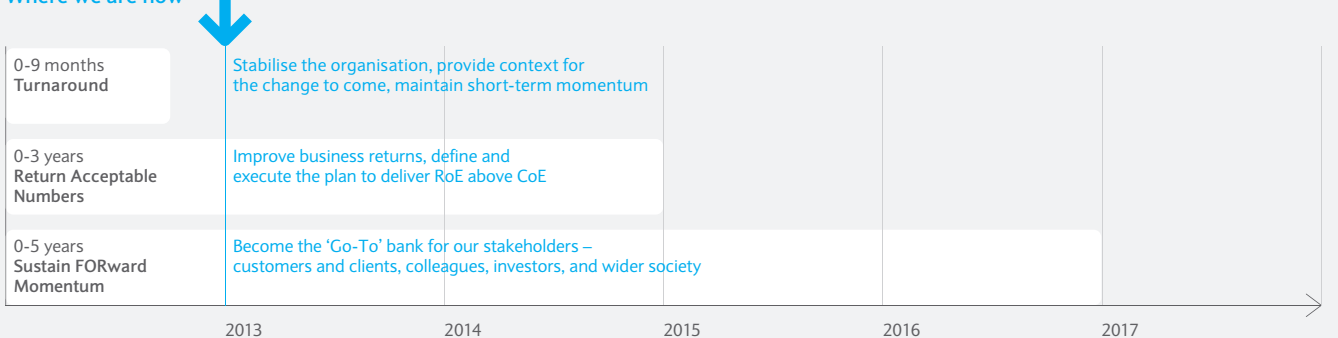
A further challenge to the banking industry, and indeed to Barclays, in recent years is one of poor conduct, damaging our reputation and causing a loss of trust amongst our customers, clients and stakeholders. We recognise the importance of rebuilding trust in Barclays as well as meeting, and bettering, the developing needs of our customers and clients.

→ Transform: delivering our strategy

The quality and commitment of the people at Barclays, combined with our underlying financial strength, means we start our transformation from a good position. The Barclays Strategic Review, commenced in Q4 2012, is a part of a long-term programme to transform the culture and performance of Barclays over the next three to five years.

The Transform programme is the way in which we will deliver our strategy. With the initial ‘Turnaround’ phase complete, we now look forward to ‘Return Acceptable Numbers’ and to ‘Sustain Forward Momentum’.

Where we are now



Barclays' sustainable success will be assured by becoming the 'Go-To' bank for all of our stakeholders. If we understand their needs and priorities and ensure that these are at the heart of our decision-making, we will be able to build a bank which is lower-risk, more predictable and higher-performing.

The strategic response

In 2013, we launched the Transform programme to deliver the recommendations of the Strategic Review. Transform is the plan that will help Barclays become the 'Go-To' bank. It has three overall goals: Turnaround, Return Acceptable Numbers, Sustain FORward Momentum.

Turnaround the business

Turnaround was the immediate task of stabilising the business and maintaining momentum. In the second half of 2012, we delivered our new goal, purpose, and values to unite Barclays with a shared sense of direction – how we will do business.

We have put in place a new Executive team which is focused on delivery. The vast majority of our 139,600 colleagues have participated in workshops and training in Barclays' values. To cement our cultural change, a guide for behaviour – The Barclays Way – has been published internally and externally.

Return Acceptable Numbers

In 2013, we turned our attention towards the longer-term transformation of Barclays. For our Return Acceptable Numbers phase, we are de-risking and de-leveraging the business to make it more sustainable for the long term.

We committed to consolidate to core lines of business, to generate £1.7bn of cost savings by 2015, to lower our RWAs, funding and liquidity, and to reach a Core Tier 1 capital ratio of 10.5%. See page 11 for further details on the Transform financial commitments.

In 2013, we:

- Completed a £5.8bn rights issue in October
- Issued £2.1bn of CRDIV and PRA-qualifying Additional Tier 1 (AT1) capital
- Reduced CRDIV leverage exposure by £196bn in H2 2013 to £1,363bn, of which an estimated £55bn related to foreign exchange
- Drove improvements in our loan-to-deposit ratio (to 101% at December 2013)

Additionally, we reduced legacy assets in our Exit Quadrant portfolios by £40bn through Investment Bank legacy asset reductions of £17bn and derivative efficiencies of £23bn.

Sustain Forward Momentum

Our journey to 'Go-To' depends on continuing to adapt Barclays for the future and ensuring that we do not return to a short-term bias as we execute our plans. In order to Sustain FORward Momentum, we have also set in place longer-term markers in four critical areas: Culture, Rewards, Control and Cost.

The Board-commissioned Salz Review also prompted us to review our conduct. We are committed to being open and transparent and to regaining the trust of all of Barclays' stakeholders. We have integrated our necessary behavioural transformation into our Transform programme. Full details on our response to the Salz Review can be found online at barclays.com/annualreport

A strong culture is the first line of defence against repeating the mistakes of the past. To unite around Barclays' Values and Behaviours, we published 'The Barclays Way' to govern our way of working across our business globally. Colleagues are essential to embedding our Purpose and Values and, in 2013, all colleagues attended Values and Behaviours engagement sessions.

Reward and incentivisation is a critical enabler of behavioural change. As of 2014, colleague performance will be measured and rewarded not only on 'what' an employee delivers but also 'how' they achieve their objectives. As such, remuneration will align with Barclays' Purpose, Values and Behaviours as well as the Group Balanced Scorecard.

As of February 2013 control functions now have solid reporting lines into the Group CEO rather than business heads to avoid conflict of interest.

The Remuneration Committee will embed aggregate and individual incentive risk adjustments with additional Compliance and Risk input. Furthermore, our principal risk framework has been enhanced with the inclusion of conduct risk and reputation risk and a revised Enterprise-Wide Risk Committee will ensure adequate Board oversight.

To address the cost challenge, we have focused on creating the right level of financial analytics and on improving operational efficiencies. The key elements of our cost programme are right-sizing our businesses, industrialising handling of customer transactions and queries, and adopting innovative technology and automated processing.

Focus of efforts in 2014

In 2014, we will continue to build on the progress made in 2013. We will focus on delivering on our financial commitments and expect to see the benefits of our 2013 work on cost begin to crystallise.

We aim to respond positively to the evolving regulatory landscape. We have sought to constructively engage our regulators and improve our regulatory and public disclosures in order to improve transparency and consistency with society's expectations.

The new regulatory and emerging business environment will inevitably call for continued rigorous review and adaption of the mix and structure of the businesses of the Bank to ensure we generate sustainable returns.

However, care needs to be taken to ensure that regulation does not go too far. A healthy banking sector ensuring returns above the cost of equity is essential to economic growth. Vibrant economies need vibrant banks. It is therefore important to ensure that the rightly-increased focus by the regulator on conduct supervision does not inadvertently result in the withdrawal of services and the restriction of choice.

Another key focus over 2013 and the coming years is rebuilding the trust that customers, clients, and stakeholders have in our organisation. We have pledged to increase transparency and conduct our business in the right way, as set out in our values.

We need to better respond to the current needs and anticipate the future demands of our customers and clients. As they become increasingly technology savvy we have worked to embed technology across our product offering. This ranges from payment innovations such as PingIt to expanding our Investment Bank's electronic trading platform BARX.

‘Our customers and clients are at the centre of our goal and purpose.’

Barclays is a globally diversified, universal bank – that is, we offer an integrated set of products and services across retail banking, wealth management, commercial and investment banking serving individuals, corporations, institutions, and governments.

→ Delivering value

Ensuring we deliver our obligations to shareholders whilst meeting society’s needs in a responsive manner



Our business model

Barclays seeks to satisfy the needs of our customers and clients by offering a rounded value proposition – a full range of products and services – and thereby, we aim to achieve a smoother income stream and sustainable returns.

Barclays’ competitive advantage is created by the scale and diversity of our businesses and the quality, character and relationships of our people.

Our Retail and Business Banking businesses operate through a regional model, focusing on delivering targeted solutions to individuals and small businesses. We operate retail banks in UK (UK RBB), Africa (Africa RBB), and Europe (Europe RBB).

Barclaycard Investment Bank, Corporate Banking and Wealth and Investment Management operate in global models, leveraging their offerings to provide comprehensive solutions across borders.

We are increasingly operating a shared service model for Central Functions. Improved ‘functionalisation’ has allowed us to take advantage of synergies through the sharing of ideas and collaboration from cross-functional working groups.

The sum of the parts

Our business model enables us to maintain relevance to our customers and clients, whatever stage of life they are in. For example, this means being ready to help business owners launch a business, fund its growth, expand internationally, and protect against currency risk. For individuals, our model can provide a safe place to store savings, help a first-time buyer make their first steps onto the property ladder, create an investment portfolio as wealth grows, or provide cross-border advice for the affluent.

We seek to add value to our clients through our end-to-end network, for example an individual retail customer in the UK is able to access current and savings account balances along with Barclaycard data all on the same mobile banking app. Pingit, our peer to peer payments service, is seamlessly integrated within our retail banking offering, a further example of this joined up approach to the way we do business.

Our international reach and scale means we have the responsibility, indeed obligation following our designation as a Global Systemically Important Financial Institution, to work together with our regulators to de-risk the industry and provide a more sustainable banking landscape over the long term. We are actively engaging with UK, EU, and US banking supervisors to develop a new model for the industry and to ensure our business is sustainable and flexible – ready for the future.



Meeting customer and client needs

Our value proposition

Our customers and clients are at the centre of our goal and purpose and we seek to become their ‘Go-To’ bank both through the excellence of our products and services and also through the way in which we do business. As we continue to transform Barclays, we believe we can become the bank of choice for all of our stakeholders.


	Individuals	Small and Medium size businesses	Corporates	Financial Institutions and Banks	Sovereigns and Institutions
A safe place to save, invest, and manage cash	Current accounts and overdrafts				
	Savings, deposit and investment products				
	Mobile and digital payments				
	Stockbroking and trading services		Access to global financial markets		
	Cash management, payment systems, and international trade services				
Funds for purchases and growth	Residential mortgages, consumer loans and credit cards	Commercial mortgages and business loans			
		Asset and lease finance, trade and supplier finance and working capital solutions			
			Global capital markets		
			Large corporate and inter-bank lending		
Management of business and financial risks	Foreign exchange rate hedging				
	Fixed rate loans				
	Inflation and interest rate hedging				
Financial and business support	Wealth Advisory and Private Banking services	Relationship managers and support			
		Business seminars and start-up accelerator space	Global investment research and advice on mergers & acquisitions		

‘The Balanced Scorecard is the final crucial piece of our plan – alongside our Purpose and Values – to embed the right culture in our business and become the ‘Go-To’ bank’

The Balanced Scorecard sets out eight specific commitments across our 5Cs (Customer & Client, Colleague, Citizenship, Conduct and Company) and defines what need to achieve over the next five years to be well on the way to becoming the ‘Go-To’ bank.

We are committed to monitoring and reporting on our progress annually so that stakeholders can hold us to account. The Balanced Scorecard is supported by strategic initiatives that will drive progress across the 5Cs.

The Balanced Scorecard gives clear strategic context for our colleagues around what becoming the ‘Go-To’ bank will look like and lays out Barclays’ priorities. The Barclays Balanced Scorecard is cascaded into business unit and function scorecards. Together, these provide line of sight to employees to our organisational goal. They also provide a framework and starting point for all employees when they set their individual performance objectives across the 5Cs.

 For more detailed information on the Balanced Scorecard, please see barclays.com/balancedscorecard

→ Our Balanced Scorecard

Becoming the ‘Go-To’ bank for all our stakeholders

Balanced Scorecard: overview








Outcome Statements

We balance our stakeholders’ needs across the short and long term.






Our activities drive mutually reinforcing outcomes across stakeholders.


Outcome Statements

 Customer & Client	<ul style="list-style-type: none"> ■ We are ‘Go-To’ for our customers and clients
 Colleague	<ul style="list-style-type: none"> ■ Our colleagues are fully engaged ■ We create a diverse and inclusive environment where colleagues can fulfill their potential
 Citizenship	<ul style="list-style-type: none"> ■ We positively impact the communities in which we operate
 Conduct	<ul style="list-style-type: none"> ■ Our products and services are designed and distributed to meet clients’ needs ■ We act with integrity in everything we do
 Company	<ul style="list-style-type: none"> ■ We create sustainable returns above the cost of equity ■ We understand and effectively manage our risks, and continuously improve control

Metrics and targets

We have agreed eight key measures against which we and our stakeholders can hold us to account. We are committed to monitoring and reporting on our progress annually.






	Metric	Actual 2013	Target 2018
 Customer & Client	RBB, Barclaycard and W&IM: Weighted average ranking of Relationship Net Promoter Score ^a vs. peer sets	4th	1st
	CIB Client Franchise Rank: Weighted average ranking of wallet share or customer satisfaction with priority clients	4th	Top 3
 Colleague	Sustained engagement of colleagues score	74%	87-91%
	% women in senior leadership ^b	21%	26%
 Citizenship	Citizenship Plan – initiatives on track or ahead	10/11	Plan Targets
 Conduct	Conduct Reputation (YouGov survey)	5.2/10	6.5/10
 Company	Return on Equity (Adjusted)	4.5%	> Cost of equity
	Fully Loaded CRD IV CET1 ratio	9.3%	>10.5%

 For further information on Balanced Scorecard Methodology and Data Sources please visit barclays.com/balanced-scorecard and see the 'Metrics and targets' page

A detailed view of performance against Citizenship Plan targets is available in the Citizenship Report 2013 at barclays.com/citizenshipreport

Delivering our strategic targets: Example Strategic initiatives

Here are some examples of strategic initiatives that will drive progress across the 5Cs and support our goal to become the 'Go-To' bank.

 Customer & Client	<ul style="list-style-type: none"> ■ We are using technology to improve our customers' and clients' experience and to be responsive to their changing needs, such as through Barclays Mobile Banking, BARX, PayTag and Barclays.Net ■ We are making our most important customer and client interactions as simple and instant as possible – putting power in their hands to transact when, where and how they want to ■ We are simplifying our products and services and improving what we offer to match customer needs with the right service model
 Colleague	<ul style="list-style-type: none"> ■ We have launched our Purpose and Values, and we are embedding them into all our HR processes including recruitment, promotion and performance management ■ We are developing and training leaders through the Barclays Leadership Academy and Barclays Global Curriculum ■ We are driving a consistent global diversity and inclusion plan resulting in a more visibly diverse talent pipeline
 Citizenship	<ul style="list-style-type: none"> ■ We are ensuring the way we do business reflects broader societal and environmental considerations ■ We are contributing to growth through financing, supporting businesses and ensuring our products and services support sustainable progress ■ We are supporting the communities where we operate by helping five million young people to develop enterprise, employability and financial skills
 Conduct	<ul style="list-style-type: none"> ■ We are following a rigorous and transparent framework on conduct risk reporting and management ■ We are using material conduct risk assessments to effectively identify, assess and manage conduct risk ■ We are exercising sound judgements to avoid detriment to customers, clients and counterparties or to market integrity
 Company	<ul style="list-style-type: none"> ■ We are delivering the initiatives across the strategic quadrants: Invest and grow, Reposition, Transition, and Exit ■ We are managing costs (rightsizing, industrializing, innovating) and delivering our leverage and capital commitments ■ We are improving our controls through the roll-out of "The Barclays Guide", which covers how we organise, manage and govern ourselves and includes a new risk management framework

Notes

^a Net Promoter, Net Promoter Score, and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

^b Senior leadership represents the Managing Director and Director corporate grades combined, a population of over 8,000 employees. Under the Companies Act 2006 we are also required to report on the gender breakdown of our 'senior managers'. For this purpose, we have 988 senior managers (179 female and 809 male) who include Officers of the Group, certain direct reports of the Chief Executive, heads of major business units, senior Managing Directors, and directors on the boards of subsidiary undertakings of the Company.



'We have made quick progress on leverage, but focusing on balance sheet optimisation for sustainable returns is now the priority going forward.'

Reflecting on the 2013 financial results for Barclays, I believe progress has been made and momentum is building around the Transform Programme. This was the first year of the Programme, which necessitated a substantial investment in future cost reduction and repositioning of our balance sheet and capital base.

Financial review

Overview

Within the results, there are two areas that I felt were particularly noteworthy. First, the breadth and diversity of income in the Group, underpinned by our traditional consumer and commercial banking franchises. Similarly, within the Investment Bank, growth in Equities and Investment Banking income provided an offset to the market-led weakness in certain FICC businesses. Second, demonstration of strong financial fundamentals across funding and liquidity, capital, credit risk management and margins should stand the bank in good stead for generating sustainable returns going forward.

Income statement review

2013 profits were impacted by £1.2bn of costs to achieve Transform which drove a 32% reduction in adjusted profit before tax to £5.2bn, while statutory profit before tax improved from £0.7bn to £2.9bn due to a significant reduction in the own credit charge.

Adjusted income was down 4% to £28.2bn reflecting reductions in Investment Bank FICC, partially offset by impressive performances in Investment Bank Equities and Investment Banking and growth in UK RBB, Barclaycard and Corporate.

Impairment charges improved 8% to £3.1bn reflecting lower impairments in the wholesale businesses, with increases in UK RBB and Barclaycard due to business growth and non-recurrence of prior year releases.

Adjusted operating expenses increased £1.3bn to £19.9bn reflecting £1.2bn of costs to achieve Transform, £220m provisions for litigation and regulatory penalties in Q413 in the Investment Bank, mainly relating to the US residential mortgage-related business and UK bank levy of £504m (2012: £345m). The Group's cost target for 2015 remains at £16.8bn excluding costs to achieve Transform.

I am pleased by the strong results in UK RBB, Barclaycard and Corporate Banking, whilst noting 2013 was a tough year for Investment Bank income. Moreover, following restructuring and de-risking activity we completed during the year, Europe RBB, Africa RBB and Wealth and Investment Management now have clear paths to shareholder value creation in the medium term.

Balance sheet review

In October, I began conducting a detailed balance sheet review, specifically focused on meeting leverage ratio requirements as a priority. We have made strong and quick progress on this. Our Prudential Regulation Authority (PRA) leverage exposure reduced by nearly £200bn from June 2013 which, combined with the £5.8bn rights issue and issuance of £2.1bn of AT1 securities, strengthened our PRA leverage ratio to just under 3%. Our focus on Risk Weighted Asset (RWA) management continued throughout the year, resulting in a 7%, or over £30bn, reduction in CRD IV RWAs. Looking ahead, the balance sheet review will continue but with increased focus on optimising the balance sheet, considering both risk weights and leverage, in order to generate improved returns.

Tushar Morzaria
Group Finance Director

Revised Transform financial commitments for Barclays PLC

	Original 2015 Targets		Revised Targets	Dates
Return on equity	> CoE	→	>CoE in 2016	2016
Operating Expenses	£16.8bn	→	£16.8bn	2015
Cost: Income Ratio	mid-50s	→	mid-50s	2015
CRD IV RWAs	£440bn	→	£440bn	2015
FL CET1 Ratio	Transitional >10.5%	→	Fully loaded >10.5%	2015
Dividend Payout Ratio	30%	→	40-50%	40% from 2014

What are the main financial issues in the year, and implications for the business?

What happened:

On 20 June 2013 the PRA announced the results of its review of capital adequacy of major UK banks and building societies. As part of its review, the PRA introduced a 3% Leverage Ratio target to be achieved by 30 June 2014. As at 30 June 2013, Barclays' PRA Leverage Ratio was 2.2%, representing a capital gap of £12.8bn.

Actions taken:

In order to achieve the PRA's 3% Leverage Ratio target by June 2014, we announced a series of actions including an underwritten rights issue, measures to reduce Barclays' CRD IV leverage exposure, and the continued execution of Barclays' capital plan with the issuance of CRD IV and PRA qualifying AT1 securities. In the second half of 2013, we increased our PRA Leverage Ratio from 2.2% to just shy of the 3.0% requirement through these actions.

A significant proportion of the capital gap was reduced through completion of a one for four rights issue which raised £5.8bn of capital for the Group. The rights issue completed on 4 October 2013 and, with a 94.63% acceptance rate of shareholder rights, we welcome the strong support shown by shareholders during what was a challenging period.

Through management actions we were also able to reduce the Group's CRD IV leverage exposure by nearly £200bn to £1,363bn. This was achieved through de-risking the business via actions such as improving legal netting agreements on derivatives and reducing low returning Exit Quadrant assets.

A highlight of 2013 was Barclays' issuance of £2.1bn equivalent of benchmark Euro and US Dollar AT1 securities. This represented the targeted issuance for the PRA leverage plan, and constitutes a key step in transitioning our capital base towards future regulatory capital requirements.

Outlook:

We remain committed to structurally reducing the cost base of the Group and we have reaffirmed our £16.8bn cost target with a mid-50s cost: income ratio for full year 2015. We will also continue to closely manage RWAs through rundown of the low returning Exit Quadrant and other balance sheet optimisation, and we target Group RWAs of £440bn by year-end 2015.

Regulation remains a key variable and, while we have gained clarity in certain areas, there remain a number of outstanding items which we will continue to anticipate as best we can. In particular, the Transform targets will allow us to achieve a fully loaded CRD IV Common Equity Tier (CET) 1 ratio of greater than 10.5% in 2015 with a fully loaded CRD IV leverage ratio of 3.5% by year-end 2015 with 3.5-4% targeted thereafter.

2014 will likely be another year of transition, with greater focus on balance sheet optimisation, particularly in the Investment Bank, combined with strict cost control in order to generate higher and more sustainable returns in the future. Ultimately, increasing the Group's RoE will help to reduce the market valuation discount and increase total shareholder returns.



‘Although economic and market conditions remained challenging in 2013, our credit and market risk portfolios have continued to perform well’

Maintaining our risk profile at an acceptable and appropriate level is essential to ensure our continued performance. Barclays constantly reviews its exposures in a number of areas including asset quality, industry and geography.

2013 performance

While the economic environment in Barclays' main areas of business was marked by generally weak growth in 2013, the loan impairment charges reduced by 7% with the loan loss rate finishing the year 6bp lower at 64bps. The loan impairment charge for wholesale decreased by 27% principally reflecting a reduction in Corporate Banking due to lower exposure to the Spanish property and construction sector and lower charges in the UK. Impairment increased by 4% in retail mainly in UK RBB and Barclaycard as the two businesses grew and expanded their business portfolios and from the non-recurrence of releases in 2012.

Market risk remains at moderate levels and the daily value at risk reduced in 2013 from a combination of risk reduction and improved market conditions, notably, tightening of credit spreads.

The operational risk profile remained broadly steady while conduct risk relating to legacy issues was evidenced by additional provisions for PPI and interest rate hedging product redress.

Our funding profile continued to strengthen during 2013 as reliance on wholesale funding reduced as the loan to deposit ratio decreased to 101%. The Group's capital position was enhanced through the £5.8bn rights issue and £2.1bn AT1 securities as action was taken to move toward regulatory capital and leverage targets.

Risk was realigned in 2013 through two main programmes: Transform Programme

Under Transform, the risk profiles of businesses were adjusted as they were aligned with their revised strategies to meet the goal of becoming the 'Go-To' bank. This included a lowering of risk in Corporate Banking as Exit Quadrant assets were reduced in 2013. In Europe RBB, the risk profile is in line with the change of focus to mortgage lending and small business customers through its Premier proposition. The risk profile in Barclaycard remained broadly stable with growth within appetite and in line with ongoing strategy of recruiting quality prime customers, combined with a controlled testing into other open market areas of business.

Revised Risk Management Structure

In 2013, the Group also introduced the Enterprise Risk Management Framework (ERMF), which sets out a framework and approach that is applicable to the whole bank, all colleagues and to all types of risk. To strengthen the governance relating to conduct and reputation matters Conduct risk and Reputation risk were re-categorised as Principal Risks in 2013 with Executive Committee sponsorship from the Principal Risk Owner, the Head of Compliance. The Board Enterprise Wide Risk Committee was also created in 2013. It recommends to the Board the Group's overall risk appetite as well as evaluating and reporting details of the Group's overall risk profile and risk monitoring.

Key influences on risk in 2013

In 2013, a number of risks were considered and dealt with in order to minimise impact on the Group's performance and ability to meet its goals and priorities. These included, but were not limited to:

- Uncertain economic environment, including GDP growth, inflation, property values and unemployment
- Political uncertainty in a number of countries which could have adversely impacted the Group's retail and institutional customers
- The risk of a Eurozone crisis whereby a sovereign may default and exit from the Eurozone. While this receded somewhat during 2013 it could have resulted in losses to the Group through, for example, redenomination risk
- Changes in both the level and volatility of prices, for example, interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates, which could impact earnings or capital
- Potential operational risk of service disruption to customers as a result of failed systems or human errors, or increasing threat from cyber-attacks and breaches of security, with adverse effects on the Group's reputation, operations and financial condition
- Increased levels of legal proceedings in jurisdictions where it operates, and changing legal and regulatory environments, which could lead to fines, public reprimands and damage to reputation
- Changing and uncertain regulatory environment

Risk and business strategy

The risk function plays a significant role in review and challenge of risks inherent within business plans and strategy by verifying that they fall within financial volatility risk appetite and incur a level of risk that is individually and in aggregate acceptable to the Board, or be modified accordingly. The Group-wide stress testing process is similarly linked to the medium term planning process and also supports strategic planning and capital adequacy. Barclays manages human rights risk via our environmental and social risk procedures and guidance and our reputational risk framework and continues to work collaboratively with others in our sector on integration of human rights issues into business decision making. Risk management responsibilities are laid out in the ERMF, which covers the categories of risk in which Barclays has its most significant actual or potential risk exposures, which are known as Principal Risks (see table on the following pages).

Robert Le Blanc
Chief Risk Officer

Future priorities

At a time of significant internal and external change and uncertainty in the business environment, it is important that we continue to keep our customers at the forefront of our activities while meeting new regulatory requirements and improving effectiveness in the risk management process. Our priorities for 2014 reflect these aims and include:

- Providing our customers with faster decisions and enhancing support for those experiencing difficulties
- Closely managing funding and liquidity risk including redenomination risk
- Meeting regulatory expectations in relation to the PRA Leverage Ratio during 2014
- Implementing and embedding the ERMF across Risk including further enhancement of reputation and conduct risk management
- Continuing to manage and control impairment across the firm
- Continuing to enhance and strengthen our operational risk management processes
- Further enhancing Recovery and Resolution Planning and responding to regulatory requirements for structural reform (e.g. UK Retail Ring Fence)




Example of a related strategic objective and associated risks

Principal Risk	Objective	Example of a significant risk taken in pursuit of the objective
<p>Credit risk</p> <p>The suffering of financial loss should any of our customers not fulfil their contractual obligations to the Group.</p>	<p>We are committed to supporting all our customers, counterparties and clients in their day-to-day banking needs and to tailoring our products to meet their requirements.</p>	<p>The credit risk that the Group faces from providing services to customers mainly arises from the default of wholesale and retail loans and advances particularly in a deteriorating credit environment.</p>
<p>Market risk</p> <p>The reduction to earnings or capital due to volatility of trading book positions or an inability to hedge the banking book balance sheet.</p>	<p>To provide a range of execution and risk management services across all the major traded product classes.</p>	<p>Extreme market events have the potential to create large losses.</p>
<p>Funding risk</p> <p>Failure to maintain capital ratios and liquidity obligations could lead to an inability to support normal business activity and meet liquidity regulatory requirements.</p>	<p>To maintain high levels of quality capital to ensure we have the financial strength to continue supporting customers and clients, be it lending to creditworthy small businesses or arranging the financing of large cross-border projects.</p>	<p>If we cannot forecast our future capital needs accurately, for instance because of unforeseen regulatory actions or unexpected losses, a funding shortfall may occur.</p>
<p>Operational risk</p> <p>Losses or costs resulting from human factors, inadequate or failed internal processes and systems or external events.</p>	<p>To provide our personal customers with 24/7 access to the widest range of account facilities to enable them to pursue their financial goals, whenever they want and wherever.</p>	<p>Criminals are constantly searching for ways to perpetrate fraud against Barclays and its customers.</p>
<p>Conduct risk</p> <p>Detriment caused to our customers, clients, counterparties, or the Bank and its employees because of inappropriate judgement in the execution of our business activities.</p>	<p>We seek to provide customers with products that are tailored to their changing needs and the evolving financial landscape.</p>	<p>In pursuit of business, products may be sold to customers and clients that are unsuitable because of inadequate complexity, liquidity or other factors.</p>
<p>Reputation risk</p> <p>Damage to Barclays brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical.</p>	<p>We aim to become the 'Go-To' bank for customers and all stakeholders.</p>	<p>The negative events that have beset Barclays and the banking industry in past years could recur if we failed to identify and pro-actively mitigate the risk of failure to act in accordance with our purpose and values.</p>



Examples of how Barclays mitigates the risk...

...and how this primarily contributes to our scorecard




The Group sets out the level of risk it is prepared to accept through the risk appetite agreed by the Board and closely monitors and manages the risk during the year through, for example, the application of mandate and scale limits. When a customer does experience financial difficulties the Group may assist by offering a forbearance programme which is structured to be appropriate to the nature and expected duration of the their distress. It aims to provide the customer with a sustainable programme to help return them to good financial health.

-  Customers & Clients
-  Citizenship
-  Company



We have built a business centred on client needs as opposed to the pursuit of profits from price changes and our well embedded stress testing framework helps ensure our portfolio is not overly exposed to extreme market events.

-  Customers & Clients
-  Company




Capital planning is a significant component of our stress testing framework. The adequacy of all categories of capital are tested under severe economic and market scenarios, including consideration of business losses, and the availability of funds in the market according to different scenarios. Mitigation plans are developed based on this analysis.

-  Customers & Clients
-  Citizenship
-  Company




Our Fraud Risk management team works to ensure we keep ahead of fraudsters by investing in technology, and ensuring we support clients where incidents may occur.

-  Customers & Clients
-  Citizenship

We have developed a suitability framework that clarifies the criteria that must be followed before a product is considered suitable for a customer or client. It ensures that management and their teams consider how customers' needs may change in the future under various scenarios.

-  Customers & Clients
-  Colleague
-  Conduct

As part of our plan to become the 'Go-To' bank, the Transform Programme places significant emphasis on values. All members of staff have received extensive training and senior management aim to embody our new values in everything they do. These values are being embedded in all of the bank's activities.

-  Customers & Clients
-  Citizenship
-  Conduct

‘We are determined to go out of our way to make our customer’s lives much easier, which is how we will continue to achieve sustainable long-term results.’



Ashok Vaswani
CEO, Retail and Business Banking

The UK Retail and Business Banking business model

Our social purpose

Basic banking services fulfil the need for transactions that people and business have: storing, receiving and paying monies. Modern life would seem very difficult without access to these fundamental activities.

As a leading UK retail bank, UK RBB successfully provides these basic banking services in a safe, reliable and regulated manner.

Our customers are those

We seek to support the day-to-day banking needs of UK customers. Our customers can be categorised as:

- Personal and Premier
- Small businesses

For them we provide

We focus on providing core banking through a network of branches, telephony and digital channels, enabling customers to be serviced in ways that best suit their lives:

- Personal and Business banking (including current accounts, savings and payments)
- Lending (secured and unsecured) – mortgages, loans and overdrafts

Uniquely providing value through

Our value propositions...

- Accessibility for all customers to simple, transparent and speedy products and services
- Faster or instant decision making and processing
- A focus on providing suitable services for customers’ key life moments
- Relationship propositions tailored for different segments
- Support of Government (access to) lending schemes
- The safe use of data to improve and tailor offers to customers

Our overriding goal is to provide our customers with simple products and to invest heavily in the customer experience, through both technology and people. This should result in customers consolidating their relationships with us and provide us with balance sheet and income growth.

Market and operating environment

UK RBB is performing well and continues to support the UK economy.

There is an opportunity to embrace the technological innovation and changing competitive landscape to enable our existing customers to do more with us, while protecting our market share and particularly driving income growth in Business Banking and mortgages.

We are reshaping the way we interact with our customers in a way that will drive customer satisfaction and deepen customer engagement, whilst simultaneously reducing the costs that customers do not value and growing our franchise.

Business model risks

While executing our strategy with speed and without compromising quality, we need to be cognisant of the emerging regulatory changes and adapt accordingly. As we continue to focus on rebuilding trust and reputation through improving customer experience, we also need to ensure operational risks are appropriately addressed in the business.

Any deterioration in the economic environment in the UK could adversely impact customers ability to keep up repayments and consequently, we will continue to manage risk appropriately. The UK remains a competitive environment with specialised providers offering web-based services, however our continued investment in technology and processing will help significantly improve and differentiate our customer experience.

Balanced Scorecard



Customer and client

Our aim is to become the 'Go-To' bank for all of our customers. That means we want all of our customers to be advocates of Barclays. We have a lot of work to do.

We will achieve this by significantly improving and differentiating customers' experience of banking with Barclays – through routine transactions and at the vital moments in their life.

We will measure progress through our Net Promoter Score® – a widely used measure of customer advocacy.

Our external complaints reporting has also been enhanced in the UK with reporting beyond the FCA requirements and the launch of externally published 'Spotlight' reports that focus on the key areas of customer complaints and how we are tackling them.

Through regular and rigorous review of our customers' feedback we will identify where and how we will invest to make customer's interactions with us simpler, more intuitive and more personalised.

Contributing to strategy

UK RBB provides a wide range of banking products and services delivered with excellent customer experience. We no longer incentivise our people on products sales but on customer service: our journey to 'Go-To' is focused on making customers lives easier. We look to constantly improve our customer experiences, for example:

- Responding to demand: providing multichannel access which is increasingly digital
- Supporting our customers' journey to digital services through our Digital Eagles
- Speed in our processes – often instant provision and decision making
- Targeted investment in relationship management
- Investing in our people to enhance their ability to serve customers

Bring diverse benefits...

Our current and future focus will continue to be:

- Better customer experiences and outcomes
- Reduction in processing times and associated errors positively influencing complaint rates and costs
- Tailored services, usually at good margins
- Support and access to lending/capital



Contributing to income by

We deliver a sustainable contribution to Group revenue through offering long term value and great customer service to our customer base, prudent risk management and charging for:

- Interest income from loans less interest paid on deposits
- Fees for services provided



Sustaining business by

- Supporting society through responsible lending
- Responding to demand for digital banking by investing in innovative, cost effective platforms
- Running a financially stable, risk-conscious business
- Ensuring we have the right people with the right tools, delivering the most suitable services

UK Retail and Business Banking (UK RBB) > continued

This will ensure we will deliver the right outcomes for customers, quickly and transparently and keep them informed along the way.

It will also help our colleagues better understand what we need do differently to become 'Go-To' for our customers across Barclays' retail operations.

In 2013 we implemented a number of initiatives to affect this ambition:

- We made significant progress in our core processes satisfaction scores
- We asked customers how we can make banking better through the Your Bank campaign and we're using their ideas to make some real improvements
- We are also evolving the way we operate to meet customers' changing needs. The pilot we've recently announced with Asda, bringing us closer to offering services where and when our customers want them, and SkyBranch, which transforms how our telephony business connects with customers, are great examples of this

Colleague

We will continue to invest in our colleagues and create a diverse and inclusive environment allowing colleagues to fulfil their potential. This will ensure that our colleagues are fully engaged allowing them to provide excellent end-to-end customer service.

We also have an ambition to create the most digitally savvy workforce to help our customers become confident with digital banking.

During 2013 we started our search for 'Digital Eagles' – colleagues across the business to support digital awareness and understanding in the UK. With over 5,000 Digital Eagle colleagues across the UK we are well placed to achieve this ambition.

Citizenship

UK RBB continued to embed and contribute to the Barclays' 2015 Citizenship Plan. We have been focusing on the way we do business, listening more to our customers and showing them we've acted. We launched the Your Bank site where everyone (not just Barclays customers) can tell us what products and services will make their lives easier.

UK RBB continued to support the UK economy; advancing £1.8bn of gross new term lending to small businesses and helping over 120,000 start-ups. We also organise small business seminars, tools and trainings, which were attended by over 20,000 people in 2013.

We are supporting our community through activities such as LifeSkills, our free, curriculum-linked programme designed to give young people in the UK access to the skills, information and opportunities they need to help them towards getting the jobs they want. The programme has so far reached out to 276,000 young people.

Conduct

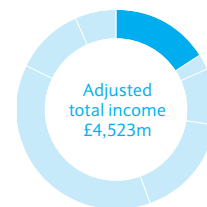
We continue to de-risk our portfolio ensuring everything that we do is open and transparent, this includes the way we're managing the PPI complaints process.

We are committed to building a culture based on Barclays' Values. We will continue to focus on the right outcomes for our customers delivered by empowered colleagues who act with integrity at all times. We have conducted business-wide risk assessments to identify conduct risk issues. We will use this process to measure and control these risks and in so doing eliminate the gaps between what our customers expect from us and what we deliver to them. We intend to lead the way in restoring trust and pride in our industry and becoming the 'Go-To' Bank

Company

Contribution to total income

£4,523m



UK RBB performed well in 2013, growing at a faster rate than the market in key products, including increasing its stock share of mortgages. Income increased 3% to £4,523m driven by strong mortgage growth and contribution from Barclays Direct (previously ING Direct UK, acquired during Q113).

UK RBB continued to restructure and invest in the business as part of the Transform strategy. Adjusted operating expenses increased 4% to £3,008m due to costs to achieve Transform of £175m.

Adjusted profit before tax decreased 2% to £1,195m.

Loans and advances to customers increased 7% to £136.5bn due to Barclays Direct, which added £4.4bn, and other mortgage growth.



More information on performance can be found online at barclays.com/annualreport

‘Your Bank’ – learning from our customers



We are determined to rebuild trust in Barclays and demonstrate day-in day-out that we are changing, and doing the right thing for customers. In September, we launched Your Bank – the online platform that allows us to continually listen, respond, anticipate and learn from our customers.

As well as getting feedback and sense-checking our ideas, we have created a place where customers can share their ideas and suggestions for how Barclays can be better shaped around their needs and individual life stages, putting them at the heart of everything we do.

In the first week we received over 370,000 interactions on the Your Bank site and 2,226 ideas.

With all of the ideas that we receive, we are taking a ‘you said, we did’ approach and have made 8 commitments to making real change for our customers.

1. We are undertaking a formal review of our overdraft charges in 2014, with a view to making them simpler and more transparent. We have already started pilots with the launch of text alerts in June to customers who had gone over their overdraft limit and into their personal reserve, which would mean they would traditionally incur a £22 charge. The alerts tell them they have a day’s grace to add cleared funds and avoid the charge. In the first three months, over 65,000 customers avoided charges totalling over £1.4m, a response rate of 27 per cent. We are

now looking at where else we can roll out text alerts as a next step. Yes it’s a cost to us, but it’s the right thing to do.

2. We have launched CloudIt through online and mobile banking as a result of customer feedback. Being able to access your secure documents whilst on the move will really make our customer’s lives much easier.

3. Contactless payments have been very well received by customers, so we’re now looking at alternative contactless methods of payments which we’ll be testing with customers.

4. We’re looking to pilot paying in coin machines in our branches. Our customers told us they’d welcome something that can automatically count coins and credit their account.

5. We will extend our free Barclays Pingit app to the under 16’s, subject to developing proper parental controls. Younger customers, being tech savvy, will benefit from the app allowing them to send and receive money simply using their mobile phone number.

6. We are going to allow our mobile banking customers to set up new payees on their mobiles. This will extend the app meaning that customers can really do much more on the move.

7. To further extend our services to a wider range of customers we’ve made our mobile banking app available on Windows platform and are planning to do the same for Pingit.

8. We have expanded our mobile banking services to include mortgage accounts, so customers can view their mortgage arrangements wherever they are.

‘In 2013 we restructured our business and are now on track to deliver the Go-To Premier bank in Europe.’



Curt Hess
Chief Executive Officer, Europe RBB

The Europe Retail and Business Banking business model

Our social purpose

In the current challenging macroeconomic environment, we continue to support our customers helping them to achieve their financial goals and ambitions.

As a retail bank Europe RBB provides banking services and investment advice to over 1.8 million customers in Spain, Portugal, Italy and France in a safe, reliable and regulated manner.

Our customers

Our focus is on growing mass affluent and small business customers via our Premier proposition.

We will continue to support our existing mass market customers.

For them we provide

We offer a full range of banking, investment and insurance products tailored to meet our customers' needs. These include:

- Day-to-day transactional banking (e.g. current accounts, debit/deferred debit cards)
- Lending (e.g. lines of credit, personal loans, mortgages)
- Savings and investments (e.g. deposits, investment advice)
- Insurance (e.g. protection and long term savings)

Uniquely providing value through

Our value propositions...

- International strength
- Risk diversity
- Long heritage
- Relevant products and services tailored to individuals' financial goals and risk appetite
- Skilled relationship managers delivering investment advice and creating strong customer relationships
- Innovation in products and technology

In 2013 we made significant progress in transforming ourselves to become the 'Go-To' bank for mass affluent customers in Spain, Portugal, Italy and France

Market and operating environment

In 2013 the macroeconomic environment remained challenging – economic contraction, unemployment and political and regulatory uncertainty impacted both us and our competitors. Against these uncertainties we successfully reduced headcount and branch operations while taking steps to de-risk the business.

Going forward we will grow mass affluent customers, leveraging strong relationship management capabilities and a comprehensive product range, while capitalising on our global brand and investment services expertise. This focused strategy will enable us to compete successfully with local and international competitors. At the same time we will continue to support our existing mass market customers through a lower cost platform.

Business Model risks

Further deterioration in macroeconomic conditions in Europe could adversely impact credit risk through the deterioration in asset prices or a customer's ability to service repayment obligations.

The business continues to proactively work to identify and mitigate any operational risk of pending regulatory change without compromising customer service and minimise disruption to the progress of our business.

In executing our strategy, we need to ensure we can manage operational risk and grow the business without compromising on quality or control.

Balanced Scorecard



Customer and client

Our aim is to become the 'Go-To' bank for mass affluent customers. We will do this by providing customers with top quality service and a differentiated proposition based on relationship management and investment services.

We will measure our progress through our Net Promoter Score®. By reviewing our customers' feedback we will know whether we are achieving the positive customer experiences critical to our goal of growing mass affluent relationships.

In 2013 we launched initiatives to improve customer experience, including:

- A new Premier value proposition which provides customers with an experience tailored to their needs and ambitions
- Issuing iPads to our colleagues to speed up customer service and allow us to serve them where they are
- Faster credit approvals – in Spain 98% of customers get a decision within 2 hours
- Enhanced online capabilities which allow customers to customise the banking alerts and updates they receive from us

Contributing to strategy

Our international footprint and brand, investment services and advice, and skilled relationship managers differentiate Barclays in our European retail banking markets. In tough economic times, transforming our cost base whilst capitalising on these aspects will drive our journey to become the 'Go-To' bank for mass affluent customers.

Bring diverse benefits...

- Customers are helped to achieve their financial goals and ambitions
- Long-term relationships improve customer outcomes and generate sustainable revenue
- Improved profitability from focus on mass affluent customers
- Economies of scale from cost synergies across multiple geographies



Contributing to income by

We charge for our services and raise Group revenue through:

- Interest income from loans less interest paid on deposits
- Regular fees (account fees, advice, service and investment advice)
- Specific product sale and transaction fees



Sustaining business by

Returning the business to strength by:

- Growing income from affluent customers while retaining income from mass market customers
- Repositioning the business for the future
- Managing down our less attractive Exit Quadrant assets

Going forward, we place long-term relationships at the heart of our offer and will help customers achieve their ambitions by supporting their evolving banking needs. In doing so we will provide long-term stable income generation.

These contributed to strong customer satisfaction and high customer advocacy scores – in Portugal we ranked #1 for service quality in a recent mystery shopping survey and in Spain we ranked the #2 ‘most loved’ bank in a recent survey, well ahead of our mass affluent segment competitors.

Colleague

We are committed to investing in our colleagues and encouraging the right values and behaviours from them.

In 2013 we launched the ‘Premier Way’, a training program that enables relationship managers to have confident, professional discussions with clients about their holistic financial needs.

In 2014 this programme will expand to include financial planning as well as giving colleagues access to externally recognised professional qualifications.

Citizenship

We are implementing mechanisms to make citizenship part of what we do every day, as well as inspiring our colleagues, clients and other stakeholders to do the same.

In 2013 we implemented the Citizenship Lens into our processes for approving new products.

We continued our commitment to local communities by investing in employability programs for young people – Europe RBB colleagues have contributed over 11,000 hours to help their local communities.

Conduct

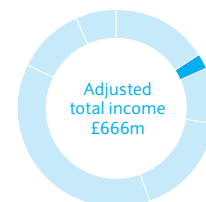
We are dedicated to delivering the right outcomes for our customers.

In 2013 we raised awareness of conduct as a principal risk across the business and launched a Code of Conduct to guide how we all should work each day. We also commenced a programme to review critical end-to-end processes and identify possible conduct issues – in doing so identify potential mitigants to eliminate the gap between what our customers expect from us and what we deliver to them.

Company

Contribution to total income

£666m



Europe RBB continued to focus on restructuring the cost base of its business in 2013, as part of the Transform strategy. Income declined 6% to £666m, reflecting actions taken to reduce assets, particularly in Spain and Italy, to address the continuing economic challenges across Europe.

During the year the business reduced full time equivalent employees by 1,600 and closed over 500 distribution points. Operating expenses increased by £435m to £1,242m, almost entirely reflecting costs to achieve Transform of £403m.

Loss before tax increased £653m to £996m, including costs to achieve Transform of £403m and an increase in other net expenses.

Europe RBB also rolled out a new Premier customer proposition, targeting profitable growth from the mass affluent segment, in a drive to increase margins.

Loans and advances to customers fell by 6% to £37.0bn, driven by asset reduction activity as part of the Transform strategy.



More information on performance can be found online at barclays.com/annualreport

Future priorities

In 2014 we will:

- Grow Premier customers
 - Acquire new mass affluent customers
 - Deepen relationships with existing customers
- Continue to control costs by transitioning mass market customers to lower cost channels over time
- Optimise the performance and accelerate the run-off of our less attractive Exit Quadrant assets

Happy customers and healthy relationships



For one Italian customer Barclays has provided investment management and advice for three years and over that period developed a healthy and profitable relationship.

During this time we have worked to provide the customer with bank-assurance products, mutual funds, structured products, asset under custody and liquidity products. In doing so we have successfully deepened our relationship with the customer by more than doubling his assets under management over a two year period.

This customer is a strong advocate for Barclays and has been extremely satisfied with his Premier relationship manager – highlighting the professionalism, proactivity and transparency of the services his relationship manager provided as the reasons for the customer's high satisfaction.

In addition to the high quality day-to-day relationship, we were also able to leverage some of the benefits we get from being part of a UK based global bank by giving this customer the opportunity to attend exclusive events that the customer greatly appreciated. These have helped us enhance our relationship.

Going forward we will continue to work closely with this customer to meet their personal banking and investment needs.

But we're not stopping there! We know this customer owns a successful SME business and we want to further deepen our relationship by providing products and services to that business – in doing so help our client achieve his ambitions across both his professional and personal life.

‘We offer our clients deep local knowledge and presence and the expertise and support of a global bank.’



Maria Ramos
Chief Executive, Africa

Africa business model

Our social purpose

Customers and clients from individuals to multinational corporates have specific banking and insurance needs that are driven by their ambitions. These range from local and cross border payments, financing their plans through loans, gaining access to capital markets receiving specialised advice or securing protection through insurance. By providing these fundamental financial activities we play a key role in empowering Africa.

Our customers and clients are those

- Retail customers across the mass, middle market and affluent markets
- Business customers including small and medium enterprises and commercial ventures
- Large corporates, public sector bodies and financial institutions
- Retail, commercial and corporate customers and clients seeking wealth, investment management and insurance solutions

For them we provide

- Full suite of retail banking products and services
- Full range of commercial transactional, investment and lending products
- Specialist investment banking, corporate banking, financing, risk management and advisory solutions
- Insurance, fiduciary and non-banking related investment products and services to retail, commercial and corporate clients
- Wealth management services for high net-worth individuals

Uniquely providing value through

Our value propositions...

- Deep local knowledge and presence
- Expertise and support of a global bank
- Providing and enhancing access to the continent by being the bridge between local and global markets
- New and innovative solutions across the banking and insurance spectrum
- Reduced costs of doing business
- Contributing to Africa's growth and development

The African continent provides an excellent growth opportunity for the Group. With our strategy for Africa, we are well-positioned to benefit from this emerging market opportunity.

Market and operating environment

Emerging markets' growth eased somewhat in 2013 whilst developed country central banks maintained their accommodative monetary policy stance, with some cutting interest rates and others injecting liquidity into the financial system. South Africa's economic growth remained muted and we faced increasingly strong competition. In our rest of Africa markets, economic growth remained resilient. Our regulatory environment continues to evolve and rising customer and client expectations as well as new technologies are challenging how we do business.

Business Model risks

Current economic conditions in South Africa bring increased financial pressure on customers and clients, some of whom may already be struggling to fulfil their payment obligations when faced with subdued economic activity and potentially rising interest rates. Rest of Africa challenges such as infrastructure constraints, lower commodity prices, and fiscal and current account imbalances in some markets have led to modest declines in our economic growth forecasts for some of the economies.

Intensified regulatory and government intervention ensures a sound operating environment; however, it does lead to increased cost of compliance and complexity of doing business.

We continue to see a host of emerging and non-traditional competitors as well as increasing consumer expectations for traditional banks to meet new service standards.

Balanced Scorecard



Customer and client

Barclays is a powerful local bank, a powerful regional bank and a powerful global player. We use this unique advantage to the benefit of our customers and clients.

In Retail and Business Banking (RBB), we have focused on enhancing the customer experience. In South Africa this began with simplifying transactional product offerings, expanding the digital experience through the launch of our banking app, and rolling out a fully integrated online insurance platform. In our rest of Africa markets, customers are benefiting from revised Premier and Prestige banking proposition, Barclays Direct, Worldmiles Platinum credit / debit card as well as CashSend money transfer. It is our goal to simplify processes and improve customer experience.

We will measure our progress in our RBB businesses through our Net Promoter Score® a widely used measure of customer advocacy. Through regular and rigorous review of our customers' and clients' feedback we will identify where and how we need to invest to make the customer journeys simpler, more intuitive and more personalised.

Contributing to strategy

Our competitive position is a combination of being a powerful local, regional and global bank. We use this advantage for the benefit of our customers and clients – becoming their 'Go-To' bank across our Retail and Business Banking, Corporate and Investment Banking as well as our Wealth, Investment Management and Insurance businesses.

Bring diverse benefits...

- Better customer and client experiences and outcomes
- Reduction in processing times and associated errors
- Tailored services
- Support and access to lending / capital
- A gateway to the best of Barclays advice and services

Contributing to income by

- Interest income from loans less interest paid on deposits
- Regular fees (account fees, advice, service and investment advice)
- Specific product sale and transaction fees
- Commissions and spreads on client transactions
- Minimising impairment through responsible lending and supporting customers and clients back to financial health

Sustaining business by

- Building upon our strengths, replicating what we do well and continuously improving our offerings
- Targeting our activities in those areas where we know we can compete strongly and provide best in class solutions
- Making the investments into simplifying how we operate, while ensuring we keep this transparent for our customers and clients
- Running a financially stable, risk conscious business
- Ensuring we have the right people giving the right advice, delivering the most suitable services

For our Corporate and Investment Banking clients we continue to bring African clients to the global financial markets and give our global clients access to Africa. For example, we are leveraging our leading foreign exchange platform BARX Africa to trade 40 currencies across our key African markets. We have completed a pilot for Barclays.Net – a streamlined and full-featured cash management platform for our corporate and commercial clients with full roll-out in South Africa in 2014.

In 2013, we were named Best Debt House in Africa for the fourth consecutive year by EuroMoney, Best Bond House and Best FX House at the Spire Awards and we were voted best Overall Bank by Risk South Africa.

We have a strong plan in place to continue capturing the opportunities before us by improving customer and client experience, driving process simplification as well as innovative products and systems.

Colleague

We have made notable progress in building a talent pipeline that supports our ambitions and our expanded African footprint provides a unique opportunity for talented people to advance their careers. We want to be known for our leadership bench strength and we have embarked on a number of transformational leadership and values based programmes which are designed to support our leaders in delivering on a demanding performance agenda.

Citizenship

Our ambition is to help facilitate greater, more inclusive prosperity in Africa. In 2013, we consolidated our citizenship structures thus strengthening our ability to deliver our African plan. Over the year our activities ranged from funding renewable energy projects to increasing access to financial services for individuals and small businesses. We continued to invest our community investment spend in targeted skills development programmes with proven job creation capabilities. Our colleagues continued to participate in a range of volunteering events such as the Nelson Mandela Day in South Africa and Barclays global Make a Difference Day campaign.

Conduct

Our values underpin the way we behave and form the backbone of our reputation as a trusted financial services provider. Our ongoing programme to bring our revised values alive culminated with the launch of the Barclays Way – a global Code of Conduct – to embed clear and consistent expectations of behaviours across the Group.

In addition to our underlying values, we believe that laws, regulations and codes are an enabler to our business – ensuring that we make informed decisions in how we manage our business and sustain ourselves into the future.

As with many other jurisdictions, we are managing regulatory change as well as increasing expectations from stakeholders, and our response supports our commitment to treat our customers fairly and operate with integrity.

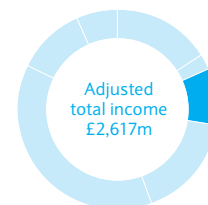
Basis of Company reporting

Barclays Group reports Africa RBB separately and the following information relates specifically to the Africa RBB reporting segment. Results from other global businesses operating in Africa are integrated within each respective business' results.

Company

Contribution to total income

£2,617m



2013 was affected by increased competition, a changing regulatory environment and foreign exchange movements, as average ZAR depreciated 16% against GBP. Income declined 11% to £2,617m driven by foreign currency movements, partially offset by the non-recurrence of fair value adjustments in the commercial property finance portfolio in the prior year. On a constant currency basis, income improved 5%, despite continued pressure on transaction volumes in a competitive environment.

The business incurred £26m of costs to achieve Transform which supported the re-shaping of the branch network and ongoing work on digitalisation of customer channels and products. Operating expenses decreased 4% to £1,896m. On a constant currency basis, costs increased 11% driven by a combination of increased investment spend on infrastructure and inflation increases in South Africa.

Profit before tax increased 25% to £404m. On a constant currency basis, profit before tax was up 57%, largely as a result of lower impairment provisions on the South African home loans recovery book.

Loans and advances to customers decreased 19% to £24.2bn as foreign currency movements offset growth of 2%, particularly in vehicle and asset finance.



More information on performance can be found online at barclays.com/annualreport

Future priorities

We have articulated very clear priorities for 2014:

- Continuing the turnaround programme for our RBB franchise in South Africa, and the build out across the continent;
- Investing in Corporate Banking across the continent;
- Capturing the growth opportunity in our Wealth, Investment Management and Insurance franchise;
- Continuing to invest in and develop the talent we have across the business; and
- These priorities are underpinned by an investment programme of over ZAR 3bn that will be invested into several large projects such as transforming our branches, integrating and standardising IT, investing in our digital capabilities and creating efficient processing hubs in the right locations.

Working together to serve global and regional clients and local customers



We are bringing together the best of our African businesses with the best of our global franchise to the benefit of our customers and clients.

During 2013, we worked closely between our operations across Africa and with our global colleagues to meet the needs of our customers and clients. We have been the bridge between local and global markets, we have helped our African clients achieve their regional growth ambitions and we have brought new products and solutions to our customers, clients and the communities in which we operate.

Local going global

Acting as a joint-lead arranger we have raised \$1bn for South African state-owned power utility Eskom through a 10-year bond offering. The transaction achieved \$4bn in investor demand and represented Eskom's second US Dollar issuance. We are the only institution to have acted as joint-lead manager on both issuances.

Global going local

Acting as the sole sponsor and joint financial advisor, we helped Glencore Xtrata, a global diversified natural resource company to access Africa with a listing on the Johannesburg Stock Exchange. This listing makes investment in Glencore more accessible to South African investors through its classification as a 'domestic' equity.

Local going regional

South African companies are looking at the rest of the continent for growth and we continue to help the expansion of corporates on the continent. We are supporting a clothing retailer's expansion into Ghana and won the tender to provide services to a major food retailer across six countries – Botswana, Ghana, Mauritius, Tanzania, Uganda and Zambia.

Access to global products and services

With Barclaycard, we have rolled out a Worldmiles Platinum credit card in Botswana, Egypt, Kenya and Mauritius and the debit card version in Egypt, Ghana, Tanzania, Uganda and Zambia providing local customers with access to a leading global product. We have also worked closely with Barclaycard to launch the Pebble – a mobile payment device – in South Africa.

Leveraging the Barclays Social Innovation Facility for product and services that drive social and commercial value

With GlaxoSmithKline, we are investing up to £7m over three years, to help remove financial barriers to healthcare access while supporting small business development and job creation in Zambia. By combining our skills, expertise and resources, we hope to tackle the challenges of last mile delivery and create a model that could be scaled across Africa to help more people gain access to affordable healthcare.

‘Barclaycard is one of the few global leaders in payments that provides ‘Go-To’ solutions to both buyers and sellers, enabling us to deliver consistent growth and welcome close to 14m new customers in the past three years.’



Valerie Soranno Keating
CEO, Barclaycard

The Barclaycard business model

Our social purpose

The ability to buy and sell goods or services easily and securely is an important human need – and essential to create the right environment for economic growth. Barclaycard is an international payments company, enabling consumers and businesses to make and take payments. We provide the ability to fund these payments with credit.

Our customers are those

Barclaycard supports **consumers and businesses making payments** for goods and services – and the **parties taking those payments**. We operate in nine countries – United Kingdom, United States, Germany, Spain, Portugal, South Africa through Absa Card and Norway, Sweden and Denmark through the EnterCard joint venture.

We support UK RBB and Absa in offering credit cards as part of an offering to consumers who are looking for a holistic relationship with their retail bank, and support Corporate Banking in providing a suite of payment services for businesses.

For them we provide

We enable consumers and businesses to **make payments** quickly, securely and internationally, facilitating the flow of funds for those wanting to make payments in-store and digitally.

We provide **flexible credit solutions to consumers and small businesses** via consumer and corporate credit cards, underwriting the credit risk.

We enable consumers and businesses to **take payments**, facilitating purchases in-store and digitally, while offering solutions for point of sale finance and merchant offers.

Uniquely providing value through

Our value propositions...

- Support the requirements of both the buyers and sellers in the payment process
- Use diverse distribution channels to reach a broader set of customers
- Utilise scale and international reach to enable sharing of analytics, costs and best practice, and ultimately better meet consumer needs
- Facilitate the launch and use of innovative products
- Support economies of scale and reduced costs

Barclaycard operates in the fast-growing consumer payments space, supporting buyers and sellers by enabling consumers and businesses to make and take payments. We provide the ability for consumers and businesses to fund these payments with credit.

Market and Operating environment

The consumer payments sector is growing rapidly as a result of changing customer behaviour, based on the growth of electronic and mobile commerce and changing payment preferences as key factors. New technology, competition and regulations all present opportunities, but also the need to adjust our business model. Our customers and clients want us to do more for them, and to do it better, faster and cheaper, and digitally. This presents many opportunities for Barclaycard and also presents challenges.

Business Model risks

This changing marketplace could create risks to the Barclaycard business model. The emerging competitive landscape in consumer payments is seeing new players enter the payment value chain, and new use of technology generating the need for continuous innovation and technology investment. Our unique ability of supporting both buyers and sellers, diverse distribution channels, and the scale of our business in multiple countries helps to mitigate the impact of this risk.

Other potential risks come from macroeconomic headwinds creating further credit risk for our customers and reducing income through potential margin compression, impacts of further regulatory change or increased operational risk. Our diversified business model and commitment to leading standards for business practice should help limit the potential impact from these.

Balanced Scorecard



Customer and client

Barclaycard serves 35.5m customers, an 8% increase on prior year and 350k business clients, an 11% increase. We have focused on offering customers simple, innovative products as part of our objective of moving from satisfied customers to customers who are strong advocates of our business. We have implemented Net Promoter Score® as our key customer metric to measure this.

We have continued to build on a heritage of innovation, supporting more than 1m payments enabled devices across three continents and working with Transport for London on acceptance of contactless cards for over 6.5m bus journeys in the UK. We have launched bFlex, a revolutionary, flexible finance product designed for online purchases. Our tailored offers engine for UK customers, 'bespoke', has reached over 800k registered users, of whom over half are new to Barclays.

We have also worked with other areas of Barclays to better serve our customers, such as through the 'Better Together' initiative, which combines current accounts and Barclaycard Freedom Rewards to provide customers with access to credit and the launch of Absa Pebble, Africa's first mobile payment acceptance device.

Contributing to strategy

Barclaycard operates in the fast-growing consumer payments industry, with clear growth opportunities. Providing our customers with solutions that are simple, offer clear value, always work, increasingly digital and instant and create emotional engagement will enable us to become the 'Go-To' bank for consumer payments.

Bring diverse benefits...

- Generating revenue streams from both parts of the relationship
- Appeal to those who seek 'all-in-one' banking relationships as well as those who prefer discrete propositions
- Improved services and customer insights
- Faster innovation at lower risk
- Access to diverse distribution channels
- Attractive growth potential
- Lower costs
- Lower risks from world class analytics
- Higher returns
- Greater resilience to economic cycles due to operating in multiple geographies and supporting both sides of consumer payments



Contributing to income by

We charge for our products and services, contributing to Group revenue through:

- **Interest income** from consumers and businesses opting to use the credit we offer
- **Transaction fees** from facilitating the payment flow, both from consumers making payments and from businesses accepting payments
- **Service fees** from value-added features for consumers and businesses, such as monthly fees for point of sale terminals or the fee for transferring an outstanding credit card balance from another card



Sustaining business by

Society's underlying need to make and take payments won't change – and seems likely to increase as more sophisticated electronic and digital solutions are required by customers.

Our role is to support and facilitate the ways that people wish to make and take payments – while ensuring we lend responsibly to those that credit is suitable for.

Because of our role as a trusted **international payments company** and by responding to customer and market needs, Barclaycard has maintained its position as the 8th largest consumer payment company in the world.

Through our customer focus, we have seen a 39% reduction in complaints to a level of 3.12 per 1,000 accounts in 2013 and zero high-rated Regulatory Compliance monitoring reviews.

Our leading products have received numerous industry awards, including the Moneyfacts award for 'Best Card Provider' for both our Balance Transfer rate (3rd year in a row) and Standard rate products in the UK, being ranked 2nd among Visa/MasterCard issuers in the 2013 JD Power industry customer service rankings in the US and winning the 'Best Corporate Card Provider' at the Business Travel Awards.

Colleague

We are committed to attracting, developing and retaining colleagues of the highest calibre and integrity. We continue to bring in the best talent from diverse backgrounds, while developing our existing talent. We ensure progression and rotation at all levels of the organisation and follow a structured learning and leadership development programme to develop our colleagues.

In 2013, we continued to make progress with our diversity agenda, with 34% women in senior leadership. We have also sustained high levels of colleague engagement to ensure talent retention, with 95% of high performers retained.

We have moved our Absa Card office to a new, world-class site in Pretoria and won the Customer Service Training Network 'Training Programme of the Year' award for our UK contact centres.

Citizenship

Barclaycard has continued to embed and contribute to the Barclays' 2015 Citizenship Plan.

We have continued to focus on 'the way we do business' to ensure we are fair and transparent. We have simplified the Terms & Conditions of many of our products.

We have ensured we are supporting the economy and contributing to growth, including offering £15.8bn in new lending to businesses and households in 2013, and adding a charity redemption category for Freedom Rewards customers in the UK who want to donate their collected points.

We are supporting our community through activities such as Royal British Legion London Poppy Day, supporting poppy sales with our colleagues and contactless terminals.

Conduct

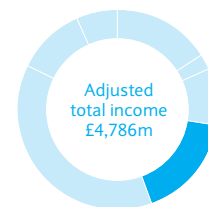
We continue to rollout the Barclays Values and Behaviours, empowering our Values Leaders to embed them with their colleagues.

Barclaycard continues to review policies and practices to identify and proactively ensure that they continue to be simple, leading, innovative and transparent, including those associated with handling PPI complaints. We are committed to ensuring that we adhere to the highest standards of conduct, proactively driving cultural change through developing best-in-class conduct risk awareness training.

Company

Contribution to total income

£4,786m



Barclaycard continued to grow in all markets, with a net increase of nearly three million new customers in 2013. Income improved 10% to £4,786m reflecting continued net lending growth and contributions from 2012 portfolio acquisitions.

The business incurred £49m of costs to achieve Transform, as it continued to seek to become the 'Go-To' bank for consumer payments. Adjusted operating expenses increased 11% to £2,048m reflecting increased costs from 2012 portfolio acquisitions, net lending growth, higher operating losses and costs to achieve Transform.

Barclaycard continued to deliver adjusted profit growth, improving 2% to £1,507m driven by the US and UK card portfolios.

Total assets increased 2% to £38.9bn primarily driven by the increase in loans and advances to customers across the UK and international businesses.



More information on performance can be found online at barclays.com/annualreport

Future priorities

Barclaycard will become the 'Go-To' bank for consumer payments through:

- Delivering simple, leading and innovative products to our retail consumers and business clients that help them achieve their ambitions – in the right way.
- Maintaining our track record of delivering strong financial performance, and delivering against the Transform targets through continued efficiencies, realising economies of scale, diversifying our business model and using world class analytics.
- Attracting, developing and retaining colleagues of the highest calibre and integrity.
- Continuing to have a positive impact in local communities by creating sustainable relationships and using the skills of the business and our colleagues to support these communities.
- Focusing on 'the way we do business' to ensure that our products and services are industry-leading in transparency.

Payment flexibility



Marco Tripoli is a charismatic ladies' fashion designer and boutique owner in South-West London. He uses a Barclaycard ePDQ terminal in his shop to take payment by credit or debit card.

Marco's tiny shop in Barnes is bursting at the seams with unique handbags, jewellery and clothes – around half of which Marco designs himself, the rest arriving twice weekly from all over Europe. His brand is built on a few key selling points: commitment to quality, sustainability and affordability, and a unique approach to customer service.

When women fall in love with a bag or dress at Tripoli's, they're not constrained to a quick decision in a cramped fitting room. Thanks to his Barclaycard ePDQ terminal, Marco can give his customer the option to try before she buys, in the comfort of her own home.

"Many of my customers pop in on their way back from dropping the kids at school and if they like something, they'll take it with them to try on at home," says Marco. "That way, they can see how a dress looks with their own shoes and accessories – or how one of my handbags complements an outfit."

After closing for the day, Marco calls personally at each of his prospective customers' homes. If they've decided against an item, it goes back to the shop with him. And if they've decided to buy, Marco simply uses his ePDQ terminal to take payment by credit or debit card.

"This works really well for people who have children and can't come back to the shop in the afternoon. It's convenient for them and a much friendlier way to do business. In fact, technology, often considered to be faceless and impersonal, actually allows me to have a far more personal service with my customers."

Marco also uses his flexible payment machine at events all over London. At a recent local fair, ePDQ helped him sell 45 tote bags – purely thanks to the convenience of paying by card.

Marco is proud of his service-led, community-centric approach. 5% of his net profits go to a local charity that helps the elderly and disabled – and many of the small businesses in Barnes promote each other's services whenever they can.

These traditional, ethical business values are reflected in the high level of personalised support that Marco's had from his dedicated Barclaycard account manager, Andy.

"He's extremely proactive and offers advice whenever he can. He recently recommended that I use an accounting package to manage my daily expenditure and it's saved me £200 a month in accountancy fees. He really does go over and above what you'd expect."

When Marco's machine broke down the night before a big event in Wimbledon, he simply called Andy and another one was flown immediately from Scotland to London. "It arrived 15 minutes before the event started," says Marco, "You just can't put a value on service like that."

‘From our unique position with dual home markets and truly global reach, we are transforming the Investment Bank so that we can continue to help our target clients achieve their ambitions.’



Eric Bommensath
Co-Chief Executive, Corporate and Investment Banking



Thomas King
Co-Chief Executive, Corporate and Investment Banking

The Investment Bank business model

Our social purpose

We help companies, institutions and sovereigns around the world to grow, and through them help millions of people to achieve their ambitions. We facilitate the movement of capital between those who need it to grow their company or build new infrastructure, for example, and those who are looking to generate a return from investment.

In doing so, we fund and facilitate economic growth around the world.

Our clients are those

- **Corporates** seeking to maximise value for their owners and shareholders, for example, through organic business growth, M&A activity and investing excess capital
- **Institutions** such as Pension funds and Hedge funds that seek to manage assets on behalf of clients, to meet their long-term investment needs
- **Sovereigns** such as Countries or Government departments that seek to deliver their growth plans, and improve living standards for their citizens

For them we provide

- **Long term strategic advice** on mergers and acquisitions, corporate finance and strategic risk management solutions
- **Execution and risk management services** across the full range of asset classes including equity and fixed income, currency and commodity products
- **Prime brokerage services** including financing, clearing and settlement of transactions and account servicing and reporting
- **Multi-asset class and macroeconomic research** delivering actionable ideas to help our clients make informed investment decisions

Uniquely providing value through

Our value propositions...

- Global footprint with unique dual home markets in the UK and US
- A market leading flow franchise across all core Fixed Income, Currency and Commodities (FICC) products
- Established and growing Equities and Banking businesses
- World-class research capabilities

The Investment Bank is a leading provider of advice, financing and risk management solutions to companies, governments and institutions around the world.

Market and operating environment

Market conditions and the wider operating environment have remained challenging in 2013. While equity markets, advisory and underwriting all saw gains, continued macroeconomic uncertainty over the future of central bank bond buying programmes led to reduced volumes in Fixed Income markets. At the same time, the implementation of Basel III and new leverage ratios is increasing the constraints on capital allocation across the industry, thereby limiting opportunities for business growth.

Business Model risks

A rapidly evolving regulatory environment combined with a subdued macroeconomic environment has impacted the profitability of capital intensive business lines.

To help mitigate this impact we have been actively rebalancing our business model through growth in Equities and Investment Banking and further intensifying focus on capital management, leverage and the reduction of our Exit Quadrant assets. We continue to keep our business model under review.

The Investment Bank still faces litigation risk and we continue to invest time and resources in strengthening our control environment, evolving our culture and simplifying and de-risking products.

Our business relies on the quality of our people, and so we also continue to reinforce our employee value proposition through a focus on learning and development and, in light of global compensation legislation, reiterating our commitment to pay for performance.

Balanced Scorecard



Customer and client

Becoming the 'Go To' partner for our clients is about building strong and deep relationships which enable us to support them in achieving their ambitions. To attain this aim we are focused on:

- Building strategic relationships with our clients by providing long-term solutions
- Providing a world-class client experience through the calibre of our people
- Offering seamless and efficient execution of transactions
- Developing the highest standards of client conduct through an enhanced product suitability framework

In 2013, we were named the best Flow House in Western Europe, the Best Flow House in North America and the best UK investment Bank by Euromoney.

Contributing to strategy

The Investment Bank aims to be the 'Go-To' partner for corporate, institutional and sovereign clients, by combining expert insight, advice and market leading execution capabilities to deliver the products and services they need to invest, grow and manage risk.

Through our client focused flow business model we provide diversity of income and diversity of risk to Barclays, and are able to deliver market execution services for retail, wealth, institutional and corporate customers.

Bring diverse benefits...

- Holistic solutions to meet clients' global needs
- Efficient execution and pricing
- Expert insight and knowledge
- High quality, streamlined client experience
- Reduced variability of income and risk

Contributing to income by

We generate revenue in many different ways, depending on the services we provide to a client. We may charge for our knowledge and expertise, our platform, our capital, or a combination of the above.

That can include fees for our advice, commission for underwriting financing transactions, interest on loans to corporates or other banks, or the price spread on client trades, amongst other things.

Sustaining business by

We seek to build long-term sustainable relationships with our clients by working with them as a strategic partner. We provide solutions that are in their best interests over the longer term.

We continue to evolve our products and services in line with changing client expectations, changing regulation and technological advances to ensure we continue to meet and exceed the needs of all our stakeholders in a continuously changing environment.

Colleague

Our people are fundamental to the performance of our business. We aim to support our colleagues to achieve their ambitions by:

- Providing world-class opportunities for career progression and global mobility
- Delivering industry leading solutions for clients
- Embracing diversity and inclusion
- Rewarding competitively for performance

2013 saw the launch of our Purpose and Values agenda, embedding them into all our HR processes including recruiting, promotion and performance management. Employee engagement was a key theme during the year with increased focus on Talent Management and Succession Planning; initiatives which saw a number of senior management moves across the Investment Bank. We continue to place Diversity & Inclusion to the forefront of our Talent agenda, because it is the right thing to do and because our clients are becoming increasingly diverse.

Citizenship

The Investment Bank contributes to the 2015 Citizenship Plan across our business.

In 2013 we supported a wide range of transactions that make a direct difference to our communities. We did this across our core competencies of capital raising, lending and distribution across various sectors including public finance (governments, supnationals, development banks and other public sector entities), alternative energy and life sciences sectors.

In addition, we provided employment and training opportunities for over 650 graduates, and our staff contributed over 48,000 volunteer hours in 2013 to worthwhile causes around the globe.

Conduct

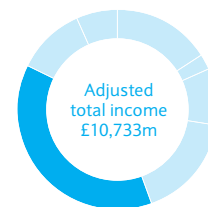
Conduct is about ensuring that our products and services are designed and distributed to meet the needs of our clients and that we act with integrity in everything we do. In 2013 we have continued to invest heavily in this area through focus on the following:

- Culture and Organisation: Embedding our culture by completing values and behaviour training for all our staff and re-balancing how we assess and reward our people to place increased focus on conduct, risk and control
- Frameworks: Developing a comprehensive conduct risk framework and developing tools that support the consistent delivery of controls
- Governance: Putting in place an enhanced governance model including the introduction of a Chief Controls Officer, Reputation Risk Committee and Conduct Risk Steering Committee
- Control Initiatives: Strengthening control design around the trade lifecycle including with relation to unauthorised trading and key benchmark submissions

Company

Contribution to total income

£10,749m



While industry FICC revenues reduced in 2013, strong growth was seen in the Equities franchise, which continued to outperform the market. Total income decreased 9% to £10,749m, including a reduction of £309m relating to the Exit Quadrant. FICC income decreased 17% to £5,537m. Equities and Prime Services income increased 22% to £2,672m reflecting higher commission income and increased client volumes. Investment Banking income increased 4% to £2,200m driven by increased equity underwriting fees, partly offset by declines in financial advisory activity.

The Investment Bank continued to make progress in delivering part of the Transform strategy in 2013. The business incurred costs to achieve Transform of £262m, primarily related to restructuring across Europe, Asia and America. Operating expenses increased 4% to £8,012m, driven by costs to achieve Transform, UK bank levy which increased 62% to £333m, cost increases related to infrastructure improvement, and provisions for litigation and regulatory penalties of £220m in Q413, mainly related to US residential mortgage-related business.

Profit before tax decreased 36% to £2,539m.

Total assets decreased £209.9bn to £863.8bn, primarily reflecting decreases in derivative financial instruments, cash and balances at central banks, and trading portfolio assets.

CRD IV RWAs reduced to £221.6bn (30 June 2013: £254.1bn) through accelerated sell down of the Exit Quadrant assets and continued focus on driving efficiency in the ongoing business.



More information on performance can be found online at barclays.com/annualreport

Future priorities

Our priorities to become the 'Go-To' Investment Bank are to:

- Focus our people and resources on building the deepest relationships possible with our target clients so we become a first call
- Invest in market-leading talent and technology to deliver the best client experience and remain responsive to clients' changing needs
- Make efficiency and control a competitive advantage by increasing standardisation and automation across the platform to reduce cost to serve and strengthen controls

Advising on one of the largest mergers & acquisition deals in history



Verizon is one of the world's largest telecommunications companies, and its mobile subsidiary, Verizon Wireless, is the number one and most profitable wireless business in the United States.

Barclays has had a longstanding inner-circle strategic and financing relationship with Verizon, dating back to 2003. When Verizon decided to acquire Vodafone's 45% stake in Verizon Wireless for \$130bn, in the third largest M&A deal ever, Verizon turned to Barclays to act as a financial advisor and joint lead arranger for the largest acquisition finance bridge facility in history. Barclays also served as a main underwriter and lead manager on Verizon's subsequent record breaking \$49bn bond offering.

This landmark transaction will help Verizon achieve its long-term ambition of owning 100% of Verizon Wireless, and it will position Verizon to provide more efficient, industry leading products and solutions to its customers.

It also serves as a clear demonstration of what we mean by 'Go-To': building long term client relationships and combining strategic advice and deep financing expertise to help our clients achieve their business goals.

‘Corporate Banking continues to support businesses both in the UK and internationally, and in 2013 delivered the best results since its creation in 2010.’



John Winter
Chief Executive Officer

The Corporate Banking business model

Our social purpose

Small and large businesses of all types have specific day-to-day banking needs that enable them to achieve their commercial ambitions. These range from the simpler operational necessities such as paying staff and receiving payments to cross-border transactions in Europe and global markets. We are open for business and ready to increase lending to viable businesses.

Barclays Corporate Banking supports over 40,000 businesses to achieve their goals in 27 countries across Europe, Africa, Middle East, North America and Asia. In doing so Corporate Banking enables domestic and global trade, job creation and economic growth.

Our clients are those

In our key domestic markets of UK and South Africa we bank and provide services to businesses, except for the smallest firms (served by RBB Business Banking). Corporate Banking is also one of the largest long-term lenders to the public sector in the UK, supporting Local Councils, Colleges and Universities and Social Housing projects.

Outside of these geographies we focus on meeting the international needs of global businesses, Financial Institutions, Non-bank Financial Institutions and international organisations.

For them we provide

- Lending to firms, supporting operations and fuelling growth
- Safeguarding clients' deposits and enabling them to manage their cash
- Facilitating clients' payments and receipts
- Financing global trade and providing foreign exchange
- Protecting larger companies from the risk of adverse market changes
- Introducing products and services from other parts of the group, such as Barclaycard, Wealth, Investment Management and Investment Bank

Uniquely providing value through

Our value propositions...

- Deep understanding of clients' sectors and their individual business through long-lasting relationships
- Global trade expertise and access through the European, African, US and Asian corridors
- Innovative products and services to suit clients' changing needs
- Access to world-leading experts across Barclays Group for specialist financial needs
- Assisting clients to come back to financial strength

Corporate Banking remains an attractive business, with companies searching for strong banking partners. However, the economic and regulatory environment continues to be challenging.

The global corporate banking market is still growing and profitable although with significant differences across geographies, customer segments and sectors.

- UK economic recovery is gathering pace
- Signs of improvement in the European economy
- The multinational corporates segment will grow faster than large/mid-Corporates segment. However, top clients in this segment are targeted by both global and specialised local competitors

Risks to our business model

The corporate banking industry is facing a number of risks that we have anticipated and are planning to mitigate:

- Some sectors and geographies will likely remain challenging particularly if interest rates rise. This could trigger increases in loan loss rates particularly in the UK where loan loss rates are at a Corporate Banking historical low. We proactively review and manage our exposure to all clients. We have a proven record of supporting businesses through their difficulties and minimising credit losses.
- In contrast, low interest rates may cause margins to compress. We continue to strengthen our market position by expanding our cash management product offering.
- Cybercrime and technology disruptions remain a risk. Barclays actively works to increase the resilience and enhance the security of its banking systems by fully supporting UK government and other banks' initiatives to increase system availability and reduce industry risks.

- Corporates increasingly use debt markets and other alternative sources of finance and non-UK banks have increased competition. To strengthen our market position we continue to expand our financing product capabilities, as well as to deepen existing, and acquiring new, client relationships.

Balanced Scorecard



Customer and client

Corporate Banking is focused on becoming the 'Go-To' bank for business, corporate and institutional clients.

We work closely with clients to fully understand their business and continuously strive for better client service. As a result, no other bank achieved a higher rating from their Corporate Banking clients in the UK for overall satisfaction in 2013.^a

Note

^a Source: Charterhouse Research based on 2,200 interviews with companies turning over between £5m and £1bn carried out in YE Q4 2013. Survey data is weighted by turnover and region to be representative of the total market in Great Britain. Sum of top two box responses – Excellent and Very Good.

Contributing to strategy

Our journey to 'Go-To' Corporate Banking is focused on:

- Strengthening our core UK, European and African franchise
- Developing innovative products and services
- Driving cost efficiencies and running down Exit Quadrant assets in Europe
- Reinforcing our strong culture and improving our controls
- Enhancing synergies across the Barclays Group to further improve our innovative and comprehensive client offering
- Putting things right where we get it wrong

Bring diverse benefits...

- A stable banking partner for the long-term
- Secure place for deposits
- Competitive financing
- Enhanced client experience
- Tailored financial solutions
- Access to innovative banking products and services
- Reliable payments and transactions across multiple currencies



Contributing to income by

- Self-funding client lending with deposits
- Earning stable interest income from lending
- Generating fees for providing transactional services
- Earning share of the income from referrals to Barclaycard, Wealth and Investment Bank
- Minimising impairment through responsible lending and supporting clients back to financial health



Sustaining business by

Helping businesses achieve their commercial ambitions...

- Developing long-term relationships that benefit the clients and provide on-going income for Barclays
- Providing clients with day-to-day products and services to help them successfully operate their businesses

...in the right way

- Applying responsible lending practices
- Providing fit-for purpose risk management
- Assisting clients to come back to financial strength

We are committed to helping businesses succeed and achieve their ambitions, no matter how complex or challenging. Our clients benefit from in-depth sector expertise – over 45 sector teams, and tailored industry research.

Our products and services are regularly recognised through industry awards, e.g. in 2013:

- Best Trade Bank in the UK – Global Trade Review
- Best Domestic Cash Manager in the UK – Euromoney
- Best Trade Bank in Africa – Treasury Management International
- UK Education Lender of The Year – for the fourth year running

We are constantly looking for ways to make our client interactions as simple and instant as possible – whether that is reducing time to set-up new client accounts or providing our front-line teams with iPads to deliver more insight directly to clients.

We see technology as a key means of responding proactively to clients' changing needs. We continue to roll-out Barclays.net (our internet-based cash management service) and Pingit for Corporates, which now allows clients to complete a full spectrum of payment options via their smartphone.

Colleague

Corporate Banking continues to invest in our colleagues to ensure they are fully engaged, motivated and supported to provide excellent client service.

We continue to promote a globally diverse and inclusive environment where all colleagues can fulfil their potential.

Priorities include driving sustainable engagement, gender diversity and developing the potential of our workforce.

Citizenship

Every day Corporate Banking employees make a real difference; helping individuals, communities and businesses grow.

Primarily, we support businesses by lending money prudently. In 2013, we provided loans and advances of £61.1bn. Over 1,600 SME clients benefitted from the Cashback for Business scheme.^a We paid £24m in cashback and have committed a further £6m. We have also continued to support the Business Growth Fund^b – with a commitment of £500m in equity.

In addition, our colleagues contributed almost 30,000 hours volunteering in their local communities.

Conduct

We are focused on delivering the right outcomes for our clients.

Managing the conduct risks that arise in our business is fundamental to our success in becoming the 'Go-To' bank. This means proactively looking out for our client's best interests and acting with integrity at all times.

In advancing our Interest Rate Hedging Products redress, 32% of the in-scope population now have review outcomes. We are progressing well and are on track to meet our commitments to the FCA. We expect to have a substantial majority of all customers at the redress offer stage by mid-year.

In line with other Barclays divisions, we are in the process of formalising our Conduct Risk reporting and management framework. This framework will ensure that client interests are being taken into account appropriately in all our business decisions. It includes everything from our business model and strategy through to ensuring our products are designed and sold in the right way.

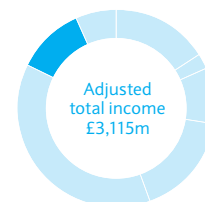
Notes

- a Cashback for Business offers 2% cashback to SMEs who take out a loan under the scheme.
b Business Growth Fund provides equity to businesses with a turnover of £5-100m

Company

Contribution to total income

£3,115m



Corporate Banking continued to make good progress in pursuing its turnaround strategy, which increased momentum in 2013. Total income increased 2% to £3,115m reflecting an increase in UK income, partially offset by non-recurring income from a reduction from Exit Quadrant assets in Europe and previously exited businesses.

Credit impairment charges declined 42% to £510m largely driven by Europe, which saw charges reduce by £224m to £318m following ongoing action to reduce exposure to the property and construction sector in Spain. Charges were also lower against large corporate clients in the UK.

Costs to achieve Transform were incurred to further invest in the ongoing client business, as well as rationalise the offering within Europe and Rest of World. Adjusted operating expenses increased 6% to £1,806m including costs to achieve Transform of £114m.

Performance improved across all regions in 2013, with the UK franchise continuing to deliver strong results. Adjusted profit before tax improved 74% to £801m. UK adjusted profit before tax improved 14% to £948m.

Loans and advances to customers decreased 5% to £61.1bn driven by the rundown of Exit Quadrant portfolios in Europe and a reduction in client demand as working capital deposits increased in the UK.



More information on performance can be found online at barclays.com/annualreport

Future priorities

Become the 'Go-To' bank for domestic corporations in the UK and South Africa and multinational corporations and financial institutions globally by satisfying their financing and servicing needs.

- Maintain market-leading rating for client satisfaction in the UK
- Continue to provide responsible lending to support growth for viable businesses
- Continue to strengthen our cross-border product offerings in Cash Management and Trade Finance
- Continue to improve profitability, supported by helping clients to access banking solutions from the Investment Bank, Barclaycard and Wealth
- Drive cost efficiencies and actively managing our balance sheet
- Further strengthen our strong culture standards and controls to help clients achieve their commercial ambitions in the right way

Helping UK businesses with global growth ambitions



“We are currently a mattress manufacturer that makes spring components. With Barclays’ continuing support, we can evolve confidently to become a global components manufacturer that makes mattresses.”

Simon Spinks, Managing Director, Harrison Spinks

New Market Expansion

Harrison Spinks is a luxury bed and mattress manufacturer based in Leeds, with ambitious plans for growth. They wanted to take their spring technology to new products and markets. Barclays was their partner of choice to help them achieve their ambition.

With turnover increasing year-on-year, Harrison Spinks is thriving despite the challenging economy by innovating and seeking out new markets. They are expanding into North America by applying their innovative spring technology to new products such as baby mattresses, footwear and automotive seating.

Having supported them for eight years, Barclays is helping them to expand by meeting their corporate banking needs and foreign exchange requirements. Harrison Spinks is benefiting from our international scale and is tapping into our knowledge of the manufacturing industry.

As Simon Spinks, MD, says, “It’s good to have someone who knows your business and where you’re trying to go... Barclays actually allows you to move forward.”

‘We are raising industry standards through our investment philosophy encompassing client profiling, investment strategies and portfolio construction.’



Peter Horrell
Chief Executive Officer, Wealth and Investment Management

The Wealth and Investment Management business model

Our social purpose

Barclays Wealth and Investment Management helps people to meet their financial objectives, whether to protect, grow or pass on their wealth. We do this through the services and products we provide across banking, investments, lending and philanthropy.

Our clients are those

We provide services, advice and products to:

- Retail investors
- Affluent individuals
- High-net worth and ultra high-net worth individuals
- Family offices
- Intermediaries (that we work with on behalf of their clients)
- Charities
- Entrepreneurs
- Companies/Employers

For them we provide

A range of wealth and investment management services, including:

- Investment management and advice
- Investment trading services
- Wealth advisory services
- Banking
- Lending
- Corporate wealth advisory and consultancy services

Uniquely providing value through

Our value propositions...

- An understanding of our client's wealth situation and aspirations, using behavioural finance to better understand their unique financial personality and risk tolerance
- Continuous improvement of client service and experience
- An open architecture approach to discretionary and advisory portfolio management
- Investment in underlying technology and processes
- Leveraging Barclays' global scope and scale
- Global research and investment solutions

We are one of the world's leading wealth managers and we offer clients a gateway to the full range of Barclays' capabilities. Wealth and Investment Management continues to focus on and invest in delivering an excellent client experience, while helping clients protect, grow and pass on wealth.

Market and operating environment

We serve clients around the world: in the UK, where we are headquartered; in the US, which is the world's largest wealth market; in major hubs in Europe and in the fast growing markets of Asia, the Middle East and Africa.

We have a clear segmentation strategy across high net worth, affluent, retail and corporate clients which defines our services based on client need and value.

Risks to our business model

Major changes in the wealth management industry in recent years have been driven by regulation, changing demographics, new sources of wealth, and evolving client needs, particularly around digitalisation.

We are making good progress in implementing our strategy, which builds on our strengths, focuses on competing where we can win and simplifies how we operate.

Our investment in the business means that we meet or exceed regulatory standards in all the markets in which we operate. We have limited the number of markets we operate in specifically to reduce business risk and position ourselves to capture emerging wealth.

Balanced Scorecard



Customer and client

We are building centres of excellence within Barclays for investment management and managing offshore banking relationships, as well as an online investment proposition for self-directed clients, which will significantly enhance our capabilities in this space.

We are making great strides in digital innovation, as evidenced by our voice biometrics programme, launched in 2013, and the continuing success of the online marketing service (Little Book of Wonders) for our high net worth clients.

We will measure success in serving clients through our Net Promoter Score®.

Contributing to strategy

Barclays Wealth and Investment Management acts as a gateway, providing clients access to the broader services Barclays offers. We seek to become the 'Go-To' bank for high net worth clients and businesses in our key markets by focusing on sustainable, long-term growth. Investment in our business will enable us to build centres of excellence for investment management, for serving international corporates and for self-directed clients.

Bring diverse benefits...

- An excellent experience for clients
- Unique understanding of our clients' investment needs
- Our investment-led approach to wealth management brings solutions and services that are:
 - Broad and relevant
 - Based on a sound understanding of client need
- A gateway to the best of Barclays' advice and services, thereby providing access to banking, credit and leading investment expertise

Contributing to income by

- Fees and commission
 - for our advice
 - in providing a service (such as banking)
 - on execution/arrangements (such as broking or mortgages)
- Interest income (for example, lending)

Sustaining business by

- Seeking to ensure our business is viable over the long-term through a focus on robust governance and control
- Building on our strengths, replicating what we do well and continuously improving our offering to build deep client relationships
- Focusing on those markets and opportunities where we know we can compete strongly and provide best in class solutions
- Simplifying how we operate, meaning greater clarity and transparency for clients.

Colleague

We are committed to engaging our colleagues and creating a diverse and inclusive environment where they can fulfil their potential. Following the launch of the Barclays Values and Behaviours, 96% of Wealth and Investment Management employees had attended a Values Workshop by June 2013, and we are making great progress in embedding the Values and Behaviours into our business and decision-making. In September 2013, colleagues had the opportunity to reflect on and absorb the strategy for Wealth and Investment Management: 2,200 colleagues in 26 locations around the world attended town halls and strategy conversations. The Wealth and Investment Management Global Diversity & Inclusion Council was established in 2013 with the purpose of attracting and developing the most talented people from all backgrounds.

Citizenship

Wealth and Investment Management contributes to the Barclays 2015 Citizenship Plan by embedding a citizenship ethos into the way we do business, through our strategy, decision-making and investment management approach. We will also contribute to growth by supporting the development of social impact investing and managing charity investments and support our communities through community investment and client philanthropy.

Our colleagues contributed over 9,000 hours to support our communities around the world in 2013.

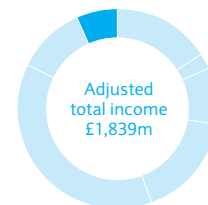
Conduct

Effectively managing Conduct Risk is essential in building a sustainable wealth management business. We are introducing a rigorous and transparent Conduct Risk reporting and management framework which ensures that the interests of clients and other stakeholders are appropriately considered in all business decisions. In 2013 we developed specific internal communications programmes to drive awareness of this important risk and help employees understand how their behaviours and decision-making can specifically contribute to or mitigate client harm. We are also embedding conduct risk discipline into our business through a series of Material Risk Assessments intended to prevent potential client issues before they occur.

Company

Contribution to total income

£1,839m




Total income of £1,839m remained broadly in line with the prior year, as growth in deposit and lending balances, primarily in the High Net Worth business, offset a lower net interest margin reflecting a change in product mix and reduced contributions from structural hedges.

Credit impairment charges increased £83m to £121m, largely reflecting the impact of deterioration in recovery values from property held as security, primarily in Europe.

The business continued to implement its strategic programme to build on its strengths, focus on target markets and simplify how it operates. Adjusted operating expenses increased £241m to £1,750m largely reflecting costs to achieve Transform of £158m.

Business growth remained robust with strong growth in client assets, customer deposits and loans and advances to customers, which increased 8% to £23.1bn primarily driven by growth in the High Net Worth business.

 More information on performance can be found online at barclays.com/annualreport

Future priorities

Wealth and Investment Management continues to be a key area of growth within Barclays. Examples of how we will achieve our strategy:

- Building on our strengths : a new direct to consumer offering for 'DIY' Buy and Hold investors – a growing and significant part of the investor market. We are on track to develop this direct to consumer offering, to be rolled out initially in the UK in 2015.
- Focus on competing where we can win: the strategic focus areas for our business continue to be the UK, US and global high-net worth hubs. In order to ensure that we are building a sustainable business and managing risks effectively, we are reducing the number of countries which we serve, taking into account the impact on clients, colleagues and local markets.
- Simplifying how we operate: we are making changes to the way we service our affluent clients in the UK with existing clients with assets of less than £500,000 managed by a new team called Private Clients.

Innovating security and simplicity with voice biometrics



Barclays Wealth and Investment Management is the first wealth manager to introduce a pioneering 'voice security' service which stores the unique biometric (with more characteristics than a fingerprint) of an individual's voice print to securely and quickly confirm a client's identity.

Last year, Barclays Wealth and Investment Management successfully rolled out a cutting-edge service enhancement which is used to identify customers by the sound of their voice, greatly improving the client experience.

When a customer calls Barclays Wealth and Investment Management to access their account and completes the traditional knowledge based identification process their voice print is captured and they are asked if they would like to enrol in the service.

The next time they call Barclays, the customer engages in a few seconds of natural conversation with a customer service agent. During that time, the voice biometrics technology is used to compare the customer's voice to their unique voiceprint on file, and silently signals to the Barclays representative when the customer's identity has been verified.

This approach has been welcomed by customers who have seen the time taken to verify their identity fall from 1.5 minutes to less than 10 seconds.

94% of clients scored at least nine out of 10 for the speed, ease of use and security of voice authentication.



'Key for the Board is ensuring that we have in place the right strategy, a robust and appropriate risk management and control framework and the right people to create long-term value for shareholders.'

The UK Corporate Governance Code makes clear the principle that the Board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance.

The right strategy

As a Board, we set direction and risk appetite and provide oversight and control of management in the day-to-day running of the business. As Chairman, I seek to ensure that adequate time is set aside at Board meetings for the open and collective discussion and debate of significant issues, most importantly, strategy. Once a well-informed decision is reached, we empower management to then execute that decision, with our ongoing oversight and support. This established process underpinned our endorsement of the Transform programme in early 2013 and the decision we made in July 2013 to undertake a rights issue.

The right risks and controls

It is essential that our risk culture supports our risk profile and that we have visible and dedicated risk management leadership, both in the Boardroom and in executive management. In 2013 we enhanced our internal control and risk management framework by creating a new Board-level committee charged with specific oversight of operational and conduct risks, reputational matters and our citizenship strategy. We also created a Board Enterprise Wide Risk Committee, whose role is to focus on a holistic view of our risk appetite and risk profile and to seek to identify potential future risk.

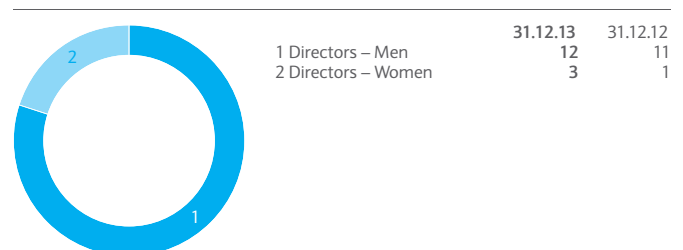
The right people

Talent development and succession planning are critical components of sustainable success and this starts at the very top, in the Boardroom. It is vital that we have on the Board the right balance and diversity of expertise, skills, experience, perspectives and, most crucially, independence of thought and action.

All Board appointments are made on merit, in the context of the diversity required for an effective Board, including diversity of skills, experience, background and gender. The aims set out in our Board Diversity Policy, published in April 2012, were to have 20% of the Board made up of women by the end of 2013, and for that position to have exceeded 25% by the end of 2015. There were three women on the Barclays Board at the end of 2013 (20%), compared to one woman at the end of 2012 (8%). Our Board Diversity Policy can be found on our website, Barclays.com

Sir David Walker
Chairman

Board Gender Balance



Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2013.

Section 414 A of the Companies Act requires the Directors to present a Strategic report in its Annual Report & Accounts. The information which fulfils this requirement can be found on pages 1 to 49.

The Company has chosen, in accordance with section 414 C (11) of the Companies Act 2006, and as noted in this Directors' report, to include certain additional matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report.

Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Key performance indicators	137 to 138
Financial review	137 to 158
Risk Management	286 to 344

Principal Activities and Business Review

From the perspective of the Company, the review of the business and the principal risks and uncertainties facing the Company are integrated with those of Barclays PLC, the Company's ultimate parent. Therefore additional information may be found in the 2013 Annual Report of Barclays PLC, which does not form part of this report.

The results of The Group show a pre-tax profit of £2,885m (2012: £650m) for the year and profit after tax of £1,308m (2012: £33m). The Group had net assets of £63,220m at 31 December 2013 (2012: £59,923m).

Profit/(Loss) Attributable

The profit attributable to Barclays PLC, the Company's parent, for the year 2013 amounted to £963m (2012: loss of £306m).

Dividends

Total dividends on ordinary shares paid during 2013 are set out in Note 11 to the accounts. Dividends paid on preference shares for the year ended 31 December 2013 amounted to £471m (2012: £465m). The Directors do not recommend the payment of a dividend.

Share Capital

There was no increase in ordinary share capital during the year. Barclays PLC owns 100% of the issued ordinary shares.

Directors

The Directors of the Company are listed on pages 45 to 47. The Directors' interests in shares are set out on page 111 of the Remuneration Report in Barclays PLC's Annual Report and Accounts. The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical.

Sir Andrew Likierman, Chris Lucas and David Booth left the Board with effect from 25 April 2013, 16 August 2013 and 31 December 2013 respectively. Diane de Saint Victor, Frits van Paasschen, Mike Ashley, Wendy Lucas-Bull and Tushar Morzaria joined the Board with effect from 1 March 2013, 1 August 2013, 18 September 2013, 19 September 2013 and 15 October 2013 respectively. There were no other changes to Directors in 2013. Stephen Thieke was appointed to the Board with effect from 7 January 2014.

Directors' Indemnities

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2013 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Qualifying pension scheme indemnity provisions (as defined by section 235 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2013 for the benefit of the then directors, and at the date of this report are in force for the benefit of directors of Barclays Pension Funds Trustees Limited as Trustee of the Barclays Bank UK Retirement Fund. The directors of the Trustee are indemnified against liability incurred in connection with the company's activities as Trustee of the retirement fund.

Similarly, qualifying pension scheme indemnities were in force during 2013 for the benefit of directors of Barclays Executive Schemes Trustees Limited as Trustee of Barclays Bank International Zambia Staff Pension Fund (1965), Barclays Capital International Pension Scheme (No.1), Barclays Capital Funded Unapproved Retirement Benefits Scheme, and Barclays PLC Funded Unapproved Retirement Benefits Scheme. The directors of the Trustee are indemnified against liability incurred in connection with the company's activities as Trustee of the schemes above.

Employee Involvement

Barclays is committed to ensuring that employees share in the success of The Group. Employees are encouraged to participate in share option and share purchase schemes and have a substantial sum invested in Barclays shares. Employees are kept informed of matters of concern to them in a variety of ways, including the business unit news magazines, intranets, briefings and mobile phone SMS messaging. These communications help achieve a common awareness among employees of the financial and economic factors affecting the performance of Barclays. Barclays is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them.

Directors' report

Employee Opinion Surveys are undertaken periodically across The Group with results being reported to the Board, all employees and to our European Works Council, Africa Forum, Unite (Amicus section), our recognised union in the UK and other recognised unions worldwide. Roadshows and employee forums also take place. In addition, Barclays undertakes regular and formal consultations with our recognised trade unions and work councils internationally.

Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. Where business restructuring has been necessary and has resulted in potential job losses, we have worked closely with colleague representatives to avoid compulsory redundancies where possible, ensuring colleagues leaving Barclays have been supported and treated with respect. Where there are no collective representation bodies in-country, we engage directly with colleagues

We have established a global Diversity and Inclusion strategy to ensure that we treat people fairly and understand how to let people from all backgrounds feel able to contribute to Barclays. We have clear objectives to increase representation and decrease turnover of under-represented populations at senior levels, maintain a positive climate of inclusion and engagement, and increase external recognition as a diverse and inclusive organisation. We have a wide range of initiatives in place to achieve our mission, including training for all employees, workplace and working practice adjustments for persons with disabilities, and identification of high potential women with relevant programmes to support their career development and retention.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues. We offer comprehensive support and guidance for employees with a disability. It is the policy of the Group that appropriated training and career development and promotion of disabled people should, as far as possible, be identical to that of other employees. We also monitor a number of indicators relating to disability in order to address the underlying causes of workplace issues, for example the number of working days lost due to musculoskeletal problems.

Last year saw significant milestones within the disability agenda. Sir David Walker sponsored the Barclays Accessibility statement, ensuring we not only comply with UK and international legislation, but we help to create an inclusive environment for all our disabled colleagues. The Reach employee network grew a further chapter in Tokyo, whilst Barclays become signatories to the Disability Confident Campaign.

Last year we were named winners of the BDF Disability Standard and Best Service Provider 2013, whilst our audio ATMs won both Best Innovation at UK UX and the RNIB Exemplars' Award, recognising that we always have our diverse customer base in mind when designing new and innovative services.

Environment

Barclays Climate Action Programme focuses on addressing environmental issues where we believe we have the greatest potential to make a difference. The Programme focuses on managing our own carbon footprint and reducing our absolute carbon emissions, developing products and services to help enable the transition to a low-carbon economy, and managing the risks of climate change to our operations, clients, customers and society at large. We invest in improving the energy efficiency of our operations and offset the emissions remaining through the purchase of carbon credits. We also have a long-standing commitment to managing the environmental and social risks associated with our lending practices, which is embedded into our Credit Risk processes. A governance structure is in place to facilitate clear dialogue across the business and with suppliers around issues of potential environmental and social risk.

We have disclosed global greenhouse gas emissions that we are responsible for as set out by 'The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013'. We provide fuller disclosure across our carbon management and environmental programmes in the Barclays Citizenship report. More details may be found on our website at Barclays.com/citizenship.

	Current Reporting Year ^a 2013	Comparison Year ^b 2012
Global GHG Emissions ^c		
Total CO ₂ e (tonnes).	969,782	1,014,332
Scope 1 CO ₂ e emissions (tonnes) ^d	57,334	47,363
Scope 2 CO ₂ e emissions (tonnes)	732,096	779,844
Scope 3 CO ₂ e emissions (tonnes) ^e	180,352	187,126
Intensity Ratio		
Total Full Time Employees (FTE).	139,600	139,200
Total CO ₂ e per FTE (tonnes).	6.95	7.29

Contracts of Significance

Barclays provided BlackRock, Inc. (BlackRock) with customary warranties and indemnities in connection with the sale of Barclays Global Investors (BGI) to BlackRock in 2009. Barclays will continue to provide support in respect of certain BGI cash funds until December 2013.

Notes

a 2013 Reporting Year covers Q4 2012 and Q1, 2, 3 of 2013. The carbon reporting year is not fully aligned to the financial reporting year covered by the director's report. This report is produced earlier than previous carbon reporting to allow us to report within the Year End financial reporting timelines.

b 2012 Reporting Year is the full calendar year (Jan 2012 – Dec 2012).

c The methodology used to calculate our CO₂e emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the operational control approach on reporting boundaries.

d Fugitive emissions reported in Scope 1 for 2013 cover emissions from UK, Americas and Asia-Pacific. Fugitive emission data for 2012 is not available. Business travel reported in Scope 1 covers company cars in the UK & SA. This covers the majority of our employees where we have retail operations with car fleets.

e Scope 3 is limited to emissions from business travel which covers global flights and UK & SA ground transportation. Ground transportation data (excluding Scope 1 company cars) covers only countries where this type of transport is material and data is available

Directors' report

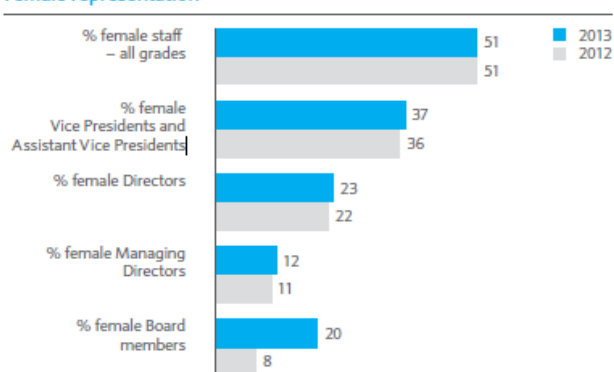
Research and Development

In the ordinary course of business the Group develops new products and services in each of its business units.

Gender

Achieving a better balance between male and female employees, particularly at the senior leadership level, is a challenge that many financial services organisations face. Increasing female representation will continue to be a key priority for our diversity and inclusion strategy

Female representation



Above shows the positive change in female representation within Barclays from 2012 to 2013

We have achieved significant progress in the representation of females in senior leadership. Not only do we have three women sitting on our Group Executive Committee, but also female representation at Board level reached our target of 20% for 2013.

The turnover of all female employees across the bank was 14% in 2013, below the 15% average for all our employees. Going forward, we want more talented women to join Barclays and develop their careers with us. Our programme to provide high-potential female employees with targeted development and mentoring currently has more than 100 participants, while membership of our Women's Initiative Network continues to grow globally. Not only are we looking at the senior leadership population, but our target of a 50/50 gender split for our graduate recruitment means that our efforts stretch across the bank's entire talent pipeline.

We are consistently seen as leaders within the gender agenda by external benchmarks, best seen by our seventh consecutive year within The Times Top 10 Workplaces for Women. Both Maria Ramos and Val Soranno Keating have been listed within Fortune's Most Powerful Women 2013, giving credit to the strong women we have in leadership positions within the organisation

Financial Instruments

Barclays financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out in pages 62 to 124 and 311 to 347.

The Board Audit Committee (BAC) reviews the appointment of the external auditors, as well as their relationship with The Group,

including monitoring The Group's use of The Group's auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found in Note X to the accounts.

PricewaterhouseCoopers LLP (PwC) has been The Group's auditor for many years, although the lead audit partner is rotated every five years. The current lead audit partner joined the audit team for the 2010 year end and will retire after the 2014 year end. Having reviewed the independence and effectiveness of the external auditors, the BAC has recommended to the Board that the existing auditors, PwC, be reappointed. PwC have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2014 AGM. There are no contractual obligations restricting the Company's choice of external auditor.

During 2013, the BAC spent time discussing a potential tender for the external audit in light of potential new regulation in this area both from the UK Competition Commission and the European Union. Having considered a number of factors, including the complexity and scale of the Barclays external audit; the degree of change impacting the business as a result of the Transform programme; and the additional strain that both an audit tender and a change of audit firm would involve, the BAC has recommended to the Board that, depending on the final rules from the Competition Commission and the European Union, a tender of the external audit should start in 2015 or 2016 with respect to the 2017 or 2018 audit and that PwC should not be invited to tender.

Each Director confirm that, so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware and that each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, 'relevant audit information' means information needed by the Company's auditors in connection with preparing their report.

By order of the Board

Lawrence Dickinson
Joint Secretary
3 March 2014

Directors and Officers and Statement of Directors' responsibilities for accounts

Current Directors and Officers

Sir David Walker – Group Chairman

Executive Directors

Antony Jenkins – Group Chief Executive

Tushar Morzaria – Group Finance Director

Non-executive Directors

Mike Ashley

Tim Breedon

Fulvio Conti

Simon Fraser

Reuben Jeffery III

Wendy Lucas-Bull

Dambisa Moyo

Frits van Paasschen

Sir Michael Rake – Deputy Chairman

Diane de Saint Victor

Sir John Sunderland

Stephen Thieke

Current Executive Committee members			Appointed to position
Robert Le Blanc	Chief Risk Officer		2004
Maria Ramos	Chief Executive, Barclays Africa Group		2009
Valerie Soranno Keating	CEO, Barclaycard		2012
Ashok Vaswani	CEO, Retail and Business Banking		2012
Bob Hoyt	Group General Counsel		2013
Eric Bommensath	Co-Chief Executive, Corporate and Investment Banking		2013
Thomas King	Co-Chief Executive, Corporate and Investment Banking		2013
Irene McDermott-Brown	Group Human Resources Director		2013
Darryl West	Interim Chief Operations and Technology Officer		2013
Skip McGee	Chief Executive, Americas		2013
Peter Horrell	Chief Executive, Wealth and Investment Management		2013
Mike Roemer	Head of Compliance		2014

Other Officers			Appointed to position
Lawrence Dickinson	Joint Secretary		2002
Patrick Gonsalves	Joint Secretary		2002
Peter Estlin	Financial Controller		2012

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Strategic Report and Risk Management sections.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

Directors and Officers and Statement of Directors' responsibilities for accounts

Statement of Directors' responsibilities for accounts

The following statement, which should be read in conjunction with the Auditors' report set out on pages 161 and 162, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Companies Act 2006 to prepare accounts for each financial year and, with regards to Group accounts, in accordance with Article 4 of the IAS Regulation. The Directors have prepared individual accounts in accordance with IFRS as adopted by the European Union. The accounts are required by law and IFRS to present fairly the financial position of the Company and the Group and the performance for that period. The Companies Act 2006 provides, in relation to such accounts, that references to accounts giving a true and fair view are references to fair presentation.

The Directors consider that, in preparing the accounts on pages 170 to 292, and the additional information contained on pages 61 to 141, the Group has used appropriate accounting policies, supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 2006.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm to the best of their knowledge that:

- (a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole; and
- (b) The management report, which is incorporated in the Directors' Report on pages 45 to 47, includes a fair review of the development and performance of the business and the position of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure controls and procedures

The Group Chief Executive, Antony Jenkins, and the Group Finance Director, Tushar Morzaria, conducted with Group Management an evaluation of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31 December 2013, which are defined as those controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within the time periods specified in the US Securities and Exchange Commission's rules and forms. As of the date of the evaluation, the Group Chief Executive and Group Finance Director concluded that the design and operation of these disclosure controls and procedures were effective.

The Directors confirm to the best of their knowledge that:

- (a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole; and
- (b) The management report, which is incorporated into the Directors' Report on pages 45 and 47, includes a fair review of the development and performance of the business and the position of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

Sir David Walker

Group Chairman

3 March 2014

Registered in England. Company No 1026167.

Risk Review

Risk factors

Overview (audited)

The following information describes the material risks which the Group believes could cause its future results of operations, financial condition and prospects to differ materially from current expectations. Certain of the risks described below also have the potential to adversely impact the Group's reputation and brand which could have a material adverse effect on the Group's results of operations, financial condition and prospects, including the ability to meet dividend expectations, ability to maintain appropriate levels of capital and meet capital and leverage ratio expectations, or achieve stated targets and other expected benefits.

Additional risks relating to the Group that are not currently known, or that are currently deemed immaterial, may individually or cumulatively also have a material adverse effect on our business, operations, financial condition and/or prospects.

There are no differences in the manner in which risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group. Therefore the risk factors listed below are for Barclays PLC which includes the Barclays Bank PLC Group.

Business conditions and the general economy

Weak or deteriorating economic conditions or political instability in the Group's main countries of operation could adversely affect the Group's trading performance

The Group offers a broad range of services to retail and institutional customers, including governments, and it has significant activities in a large number of countries. Consequently, the operations, financial condition and prospects of the Group, its individual business units and/or specific countries of operation could be materially adversely impacted by weak or deteriorating economic conditions or political instability in one or a number of countries in any of the Group's main business areas (being the UK, the US, the Eurozone and South Africa) or any other globally significant economy through, for example: (i) deteriorating business, consumer or investor confidence leading to reduced levels of client activity and consequently a decline in revenues and/or higher costs; (ii) mark to market losses in trading portfolios resulting from changes in credit ratings, share prices and solvency of counterparties; and (iii) higher levels of impairment and default rates.

The global economy continues to face an environment characterised by low growth. However, governments and central banks in advanced economies have maintained highly accommodative policies that have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. During the next few years, a combination of forecasts of and actual recovery in private sector demand and of a reduced pace of fiscal austerity in Europe and the United States is likely to result in a return by central banks towards more conventional monetary policies. While the pace of decreasing monetary support by central banks is expected to be calibrated to the anticipated recovery in demand, such actions could have a further adverse impact on volatility in the financial markets and on the performance of significant parts of the Group's business, which could, in each case, have an adverse effect on the Group's future results of operations, financial condition and prospects.

Credit risk

The financial condition of the Group's customers, clients and counterparties, including governments and other financial institutions, could adversely affect the Group

The Group may suffer financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Group. The Group may also suffer loss when the value of the Group's investment in the financial instruments of an entity falls as a result of that entity's credit rating being downgraded. In addition, the Group may incur significant unrealised gains or losses due solely to changes in the Group's credit spreads or those of third parties, as these changes may affect the fair value of the Group's derivative instruments, debt securities that the Group holds or issues, or any loans held at fair value.

Deteriorating economic conditions

The Group may continue to be adversely affected by the uncertainty around the global economy and the economies of certain areas where Barclays has operations, as well as areas which may have an impact on the global economy. The Group's performance is at risk from any deterioration in the economic environment which may result from a number of uncertainties, including most significantly the following factors:

i) Interest rate rises, including as a result of slowing of monetary stimulus, could impact on consumer debt affordability and corporate profitability

The possibility of a slowing of monetary stimulus by one or more governments has increased the uncertainty of the near term economic performance across our major markets as it may lead to significant movements in market rates. Higher interest rates could adversely impact the credit quality of the Group's customers and counterparties, which, coupled with a decline in collateral values, could lead to a reduction in recoverability and value of the Group's assets resulting in a requirement to increase the Group's level of impairment allowance. Any increase in impairment resulting from, for example, higher charge-offs to recovery in the retail book and write-offs, could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Risk Review

Risk factors

ii) Decline in residential prices in the UK, Western Europe and South Africa

With UK home loans representing the most significant portion of the Group's total loans and advances to the retail sector, Barclays has a large exposure to adverse developments in the UK property sector. Despite a downward correction of 20% in 2009, UK house prices (primarily in London) continue to be far higher than the longer term average and house prices have continued to rise at a faster rate than income. Reduced affordability as a result of, for example, higher interest rates or increased unemployment could lead to higher impairment in the near term, in particular in the UK interest only portfolio.

The Spanish and Portuguese economies, in particular their housing and property sectors, remain under significant stress with falling property prices having led to higher LTV ratios and contributing to higher impairment charges. If these trends continue or worsen and/or if these developments occur in other European countries such as Italy, the Group may incur significant impairment charges in the future, which may materially adversely affect the Group's results of operations, financial condition and prospects.

The economy in South Africa remains challenging and the risk remains that any deterioration in the economic environment could adversely affect the Group's performance in home loans.

For further information see pages 158 to 176 of the Barclays PLC Annual Report.

iii) Political instability or economic uncertainty in markets in which Barclays operates

Political instability in less developed regions in which Barclays operates could weaken growth prospects that could lead to an adverse impact on customers' ability to service debt. For example, economic and political uncertainty in South Africa continues to dampen down investment into the country with lending growth rates persisting, particularly in unsecured lending. Furthermore, debt serviceability may be adversely impacted by a further interest rate rise early in 2014 as a result of a downgrade to South Africa's credit rating.

The referenda on Scottish independence in September 2014 and on UK membership of the European Union (expected before 2017) may affect the Group's risk profile through introducing potentially significant new uncertainties and instability in financial markets, both ahead of the respective dates for these referenda and, depending on the outcomes, after the event.

There remain concerns in the market about credit risk (including that of sovereign states) and the Eurozone crisis. The large sovereign debts and/or fiscal deficits of a number of Eurozone countries and the sustainability of austerity programmes that such countries have introduced have raised concerns among market participants regarding the financial condition of these countries as well as financial institutions, insurers and other corporates that are located in, or have direct or indirect exposures to, such Eurozone countries.

For further information see pages 83 to 93.

(iv) Exit of one or more countries from the Eurozone

The Group is exposed to an escalation of the Eurozone crisis whereby a sovereign defaults and exits the Eurozone, in the following ways:

- The direct risk arising from the sovereign default of an existing country in which the Group has significant operations and the adverse impact on the economy of that exiting country and the credit standing of the Group's clients and counterparties in that country.
- The subsequent adverse impact on the economy of other Eurozone countries and the credit standing of the Group's clients and counterparties in such other Eurozone countries.
- Indirect risk arising from credit derivatives that reference Eurozone sovereign debt.
- Direct redenomination risk on the balance sheets of the Group's local operations in countries in the Eurozone should the value of the assets and liabilities be affected differently as a result of one or more countries reverting to a locally denominated currency.
- The introduction of capital controls or new currencies by any such existing countries.
- Significant effects on existing contractual relations and the fulfilment of obligations by the Group and/or its customers.

If some or all of these conditions arise, persist or worsen, as the case may be, they may have a material adverse effect on the Group's operations, financial condition and prospects. The current absence of a predetermined mechanism for a member state to exit the Euro means that it is not possible to predict the outcome of such an event or to accurately quantify the impact of such an event on the Group's operations, financial condition and prospects.

Specific sectors and geographies

The Group is subject to risks arising from changes in credit quality and recovery of loans and advances due from borrowers and counterparties in a specific portfolio or geography or from a large individual name. Any deterioration in credit quality could lead to lower recoverability and higher impairment in a specific sector, geography or in respect of specific large counterparties.

Risk Review

Risk factors

i) Exit Quadrant assets

The Investment Bank holds a large portfolio of Exit Quadrant assets, including commercial real estate and leveraged finance loans, which (i) remain illiquid; (ii) are valued based upon assumptions, judgements and estimates which may change over time; and (iii) which are subject to further deterioration and write downs.

For further information see page 82.

ii) Corporate Banking assets held at fair value

Corporate Banking holds a portfolio of longer term loans to the Education, Social Housing and Local Authority (ESHLA) sectors which are marked on a fair value basis. The value of these loans is therefore subject to market movements and may give rise to losses.

iii) Large single name losses

In addition, the Group has large individual exposures to single name counterparties. The default of obligations by such counterparties could have a significant impact on the carrying value of these assets. In addition, where such counterparty risk has been mitigated by taking collateral, credit risk may remain high if the collateral held cannot be realised or has to be liquidated at prices which are insufficient to recover the full amount of the loan or derivative exposure. Any such defaults could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Market risk

The Group's financial position may be adversely affected by changes in both the level and volatility of prices

Barclays is at risk from its earnings or capital being reduced due to: (i) changes in the level or volatility of positions in its trading books, primarily in the Investment Bank, including changes in interest rates, inflation rates, credit spreads, commodity prices, equity and bond prices and foreign exchange levels; (ii) the Group being unable to hedge its banking book balance sheet at prevailing market levels; and (iii) the risk of the Group's defined benefit pensions obligations increasing or the value of the assets backing these defined benefit pensions obligations decreasing due to changes in either the level or volatility of prices. These market risks could lead to significantly lower revenues, which could have an adverse impact on the Group's results of operations, financial condition and prospects.

Specific examples of scenarios where market risk could lead to significantly lower revenues and adversely affect the Group's operating results include:

i) Reduced client activity and decreased market liquidity

The Investment Bank's business model is focused on client intermediation. A significant reduction in client volumes or market liquidity could result in lower fees and commission income and a longer time period between executing a client trade, closing out a hedge, or exiting a position arising from that trade. Longer holding periods in times of higher volatility could lead to revenue volatility caused by price changes. Such conditions could have a material adverse effect on the Group's results of operations, financial condition and prospects

For further information see pages 94 to 98.

ii) Uncertain interest rate environment

Interest rate volatility can impact the Group's net interest margin, which is the interest rate spread earned between lending and borrowing costs. The potential for future volatility and margin changes remains, and it is difficult to predict with any accuracy changes in absolute interest rate levels, yield curves and spreads. Rate changes, to the extent they are not neutralised by hedging programmes, may have a material adverse effect on the Group's results of operations, financial condition and prospects

For further information see pages 94 to 98.

iii) Pension fund risk

Adverse movements between pension assets and liabilities for defined benefit pension schemes could contribute to a pension deficit. Inflation is a key risk to the pension fund and Barclays defined benefit pension net position has been adversely affected, and could be adversely affected again, by any increase in long term inflation assumptions. A decrease in the discount rate, which is derived from yields of corporate bonds with AA ratings and consequently includes exposure both to risk-free yields and credit spreads, may also impact pension valuations and may therefore have a material adverse effect on the Group's results of operations, financial condition and prospects

For further information see page 197 and 198 of the Barclays PLC Annual Report.

Risk Review

Risk factors

Funding risk

The ability of the Group to achieve its business plans may be adversely impacted if it does not effectively manage its capital, liquidity and leverage ratios

Funding risk is the risk that the Group may not be able to achieve its business plans due to: being unable to maintain appropriate capital ratios (Capital risk); being unable to meet its obligations as they fall due (Liquidity risk); adverse changes in interest rate curves impacting structural hedges of non-interest bearing assets/liabilities or foreign exchange rates on capital ratios (Structural risk).

i) Maintaining capital strength in increasingly challenging environment

Should the Group be unable to maintain or achieve appropriate capital ratios this could lead to: an inability to support business activity; a failure to meet regulatory requirements; changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding; and/or the need to take additional measures to strengthen the Group's capital or leverage position. Basel III and CRD IV have increased the amount and quality of capital that Barclays is required to hold. CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards being developed by the European Banking Authority or changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III). Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's CRD IV capital.

Additional capital requirements will also arise from other proposals, including the recommendations of the UK Independent Commission on Banking, the Liikanen Review and section 165 of the Dodd-Frank Act. It is not currently possible to predict with accuracy the detail of secondary legislation or regulatory rulemaking expected under any of these proposals, and therefore the likely consequences to the Group. However, it is likely that these changes in law and regulation would require changes to the legal entity structure of the Group and how its businesses are capitalised and funded and/or are able to continue to operate and as such could have an adverse impact on the operations, financial condition and prospects of the Group. Any such increased capital requirements or changes to what is defined to constitute capital may also constrain the Group's planned activities, lead to forced asset sales and/or balance sheet reductions and could increase costs, impact on the Group's earnings and restrict Barclays' ability to pay dividends. Moreover, during periods of market dislocation, or when there is significant competition for the type of funding that the Group needs, increasing the Group's capital resources in order to meet targets may prove more difficult and/or costly.

ii) Changes in funding availability and costs

Should the Group fail to manage its liquidity and funding risk sufficiently, this may result in: an inability to support normal business activity; and/or a failure to meet liquidity regulatory requirements; and/or changes to credit ratings. Any material adverse change in market liquidity (such as that experienced in 2008), or the availability and cost of customer deposits and/or wholesale funding, in each case whether due to factors specific to Barclays (such as due to a downgrade in Barclays' credit rating) or to the market generally, could adversely impact the Group's ability to

maintain the levels of liquidity required to meet regulatory requirements and sustain normal business activity. In addition, there is a risk that the Group could face sudden, unexpected and large net cash outflows, for example from customer deposit withdrawals, or collateral posting upon ratings downgrades, or unanticipated levels of loan drawdowns under committed facilities, which could result in (i) forced reductions in Barclays' balance sheet, (ii) Barclays being unable to fulfil its lending obligations and (iii) a failure to meet the Group's liquidity regulatory requirements. During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and increased costs of raising funding could all adversely impact the results of operations, financial condition and prospects of the Group.

iii) Changes in foreign exchange and interest rates

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 risk weighted assets. As a result, the Group's regulatory capital ratios are sensitive to foreign currency movements. The Group also has exposure to non-traded interest rate risk, arising from the provision of retail and wholesale (non-traded) banking products and services. This includes current accounts and equity balances which do not have a defined maturity date and an interest rate that does not change in line with base rate changes. Failure to appropriately manage the Group's balance sheet to take account of these risks could result in: (i) in the case of foreign exchange risk, an adverse impact on regulatory capital ratios and (ii) in the case of non-traded interest rate risk, an adverse impact on income. Structural risk is difficult to predict with any accuracy and may have a material adverse effect on the Group's results of operations, financial condition and prospects.

Risk Review

Risk factors

Operational risk

The operational risk profile of the Group may change as a result of human factors, inadequate or failed internal processes and systems, and external events

Barclays is exposed to many types of operational risk, including fraudulent and other criminal activities (both internal and external), the risk of breakdowns in processes, controls or procedures (or their inadequacy relative to the size and scope of Barclays' business) and systems failure or non-availability. Barclays is also subject to the risk of disruption of its business arising from events that are wholly or partially beyond its control (for example natural disasters, acts of terrorism, epidemics and transport or utility failures) which may give rise to losses or reductions in service to customers and/or economic loss to Barclays. The operational risks that the Group is exposed to could change rapidly and there is no guarantee that the Group's processes, controls, procedures and systems are sufficient to address, or could adapt promptly to, such changing risks. All of these risks are also applicable where Barclays relies on outside suppliers or vendors to provide services to it and its customers.

i) Infrastructure and technology resilience

The Group's technological infrastructure is critical to the operation of the Group's businesses and delivery of products and services to customers and clients. Any disruption in a customer's access to their account information or delays in making payments will have a significant impact on the Group's reputation and may also lead to potentially large costs to both rectify the issue and reimburse losses incurred by customers. Technological efficiency and automation is also important to the control environment and improvement is an area of focus for Barclays (for example, via updating of legacy systems, and introducing additional security, access management and segregation of duty controls).

ii) Ability to hire and retain appropriately qualified employees

The Group is largely dependent on highly skilled and qualified individuals. Therefore, the Group's continued ability to manage and grow its business, to compete effectively and to respond to an increasingly complex regulatory environment is dependent on attracting new talented and diverse employees and retaining appropriately qualified employees. In particular, as a result of the work repositioning compensation while ensuring Barclays remains competitive and as the global economic recovery continues, there is a risk that some employees may decide to leave Barclays. This may be particularly evident amongst those employees due to be impacted by the introduction of role based pay and bonus caps in response to new legislation and employees with skill sets that are currently in high demand.

Failure by Barclays to prevent the departure of appropriately qualified employees, to retain qualified staff who are dedicated to oversee and manage current and future regulatory standards and expectations, or to quickly and effectively replace such employees, could negatively impact the Group's results of operations, financial condition, prospects and level of employee engagement.

iii) Cyber-security

The threat to the security of the Group's information held on customers from cyber-attacks is pertinent and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of

security. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could adversely affect the Group's reputation, operations, financial condition and prospects.

iv) Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgement in applying relevant accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgement exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse impact on the Group's operations, financial results and condition.

In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' where provisions have already been taken in published financial statements or results announcements for on-going legal or regulatory matters, including in relation to payment protection insurance ('PPI'), interest rate hedging products, and litigation relating to Devonshire Trust, these have been recognised (in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets') as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates are inherently uncertain and it is possible that the eventual outcomes may differ materially from current estimates, resulting in future increases to the required provisions (as has, for example, been the case in relation to the provisions that the Group has made in relation to PPI redress payments), or actual losses that exceed the provisions taken.

In addition, provisions have not been taken where no obligation (as defined in IAS 37) has been established, whether associated with a known or potential future litigation or regulatory matter. Accordingly, an adverse decision in any such matters could result in significant losses to the Group which have not been provided for. Such losses would have an adverse impact on the Group's operations, financial results and condition and prospects.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

The further development of standards and interpretations under IFRS could also significantly impact the financial results, condition and prospects of the Group. For example, the introduction of IFRS 9 Financial Instruments is likely to have a material impact on the measurement and impairment of financial instruments held.

Risk Review

Risk factors

v) Risks arising from legal, competition and regulatory matters

The Group operates in highly regulated industries, and the Group's businesses and results may be significantly affected by the laws and regulations applicable to it and by proceedings involving the Group

As a global financial services firm, the Group is subject to extensive and comprehensive regulation under the laws of the various jurisdictions in which it does business. These laws and regulations significantly affect the way that the Group does business, and can restrict the scope of its existing businesses and limit its ability to expand its product offerings or to pursue acquisitions, or can result in an increase in operating costs for the business and/or make its products and services more expensive for clients and customers. There has also been an increased focus on regulation and procedures for the protection of customers and clients of financial services firms. This has resulted, moreover, in increased willingness on the part of regulators to investigate past practices, vigorously pursue alleged violations and impose heavy penalties on financial services firms.

The Group is exposed to many forms of risk relating to legal and regulatory proceedings, including that: (i) business may not be, or may not have been, conducted in accordance with applicable laws and regulations in the relevant jurisdictions around the world and financial and other penalties may result; (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way adverse to the Group; (iii) intellectual property may not be adequately protected as intended and the Group may use intellectual property which infringes, or is alleged to infringe, the rights of third parties; and (iv) liability for damages may be incurred to third parties harmed by the conduct of the Group's business.

Risks arising from material legal, competition and regulatory matters

The Group, in common with other global financial services firms, has in recent years faced a risk of increased levels of legal proceedings in jurisdictions in which it does business. This is particularly true in the US where the Group is facing and may in the future face legal proceedings relating to its business activities and its sale of securities and financial products, including in the form of class actions.

The Group also faces existing regulatory and other investigations in various jurisdictions as well as the risk of potential future regulatory and other investigations or proceedings and/or further private actions and/or class actions being brought by third parties in connection with such regulatory and other investigations or proceedings.

Material legal, competition and regulatory matters to which the Group is currently exposed are detailed in Note 29 of the financial statements and include:

- Lehman Brothers civil action;
- Civil actions in respect of certain series of preference shares issued in the form of American Depositary Shares;
- Mortgage related activity and litigation;
- Devonshire Trust;
- London Interbank Offered Rates (LIBOR) and other benchmarks civil actions; civil actions in respect of foreign exchange trading; and investigations into LIBOR, ISDAfix and other benchmarks and foreign exchange rates;

- Federal Energy Regulatory Commission – matters relating to the Group's power trading in the western US;
- BDC Finance LLC civil action;
- Interchange investigations;
- Interest rate hedging products redress;
- Credit default swap antitrust investigations;
- Swiss/US tax programme; and
- Investigations into certain agreements, including two advisory services agreements entered into by BB PLC and Qatar Holding LLC in 2008.

For further details on these material legal, competition and regulatory matters, see Note 29 to the financial statements.

The outcome of each of these legal, competition and regulatory matters (and any future matters) is difficult to predict. However, it is likely that the Group will incur significant expense in connection with some or all of these matters, regardless of the ultimate outcome, and one or more of them could expose the Group to any of the following: substantial monetary damages and/or fines; other penalties and injunctive relief; potential for additional civil or private litigation; potential for criminal prosecution in certain circumstances; the loss of any existing agreed protection from prosecution; regulatory restrictions on the Group's business; increased regulatory compliance requirements; suspension of operations; public reprimands; loss of significant assets; and/or a negative effect on the Group's reputation.

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Potential financial and reputational impacts of other legal, competition and regulatory matters or other proceedings

The Group is engaged in various other legal, competition and regulatory matters both in the UK and a number of overseas jurisdictions. It is subject to legal proceedings by and against the Group which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues. The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

In addition to the specific matters set out above, there may be other legal, competition and regulatory matters currently not known to the Group or in respect of which it is currently not possible to ascertain whether there could be a material adverse effect on the Group's position. In light of the uncertainties involved in legal, competition and regulatory matters, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period. Non-compliance by the Group with applicable laws, regulations and codes of conduct relevant to its businesses in all jurisdictions in which it operates, whether due to inadequate controls or otherwise, could expose the Group, now or in the future, to any of the consequences set out above as well as withdrawal of authorisations to operate particular businesses.

Non-compliance may also lead to costs relating to investigations and remediation of affected customers. The latter may, in some circumstances, exceed the direct costs of regulatory enforcement actions. In addition, reputational damage may lead to a reduction in franchise value.

There is also a risk that the outcome of any legal, competition or regulatory matters, investigations or proceedings to which the Group is subject and/or a party could (whether current or future, specified in this risk factor or not) may give rise to changes in law or regulation as part of a wider response by relevant law makers and regulators. An adverse decision in any one matter, either against the Group or another financial institution facing similar claims, could lead to further claims against the Group.

Any of these risks, should they materialise, could have an adverse impact on the Group's operations, financial results and condition and prospects.

vi) Regulatory risk

Regulatory risks: the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance capital and risk management strategies

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial

services industry which are currently subject to significant changes. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, changes to Group structure and/or strategy, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. Non-compliance may also lead to costs relating to investigations and remediation of affected customers. The latter may exceed the direct costs of regulatory enforcement actions. In addition, reputational damage may lead to a reduction in franchise value.

Regulatory change

The Group, in common with much of the financial services industry, continues to be subject to significant levels of regulatory change and increasing scrutiny in many of the countries in which it operates (including, in particular, the UK and the US and in light of its significant investment banking operations). This has led to a more intensive approach to supervision and oversight, increased expectations and enhanced requirements, including with regard to: (i) capital, liquidity and leverage requirements (for example arising from Basel III and CRD IV); (ii) structural reform and recovery and resolution planning; and (iii) market infrastructure reforms such as the clearing of over-the-counter derivatives. As a result, regulatory risk will continue to be a focus of senior management attention and consume significant levels of business resources. Furthermore, this more intensive approach and the enhanced requirements, uncertainty and extent of international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the Group's business, capital and risk management strategies and/or may result in the Group deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

For further information see Regulatory Developments in the section on Supervision and Regulation on page 131 to 141.

Implementation of Basel III / CRD IV and additional PRA supervisory expectations

CRD IV introduces significant changes in the prudential regulatory regime applicable to banks including: increased minimum capital ratios; changes to the definition of capital and the calculation of risk weighted assets; and the introduction of new measures relating to leverage, liquidity and funding. CRD IV entered into force in the UK and other EU member states on 1 January 2014. CRD IV permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the CRD IV leverage ratio, which are not expected to be finally implemented until 2018. Notwithstanding this, the PRA's supervisory expectation is for Barclays to meet certain capital and leverage ratio targets within certain prescribed timeframes. Barclays met the PRA's expectation to have an adjusted fully loaded CET 1 ratio of 7% by 31 December 2013 and will be expected to meet a PRA Leverage Ratio of 3% by 30 June 2014.

There is a risk that CRD IV requirements adopted in the UK may change, whether as a result of further changes to global standards, EU legislation, including the CRD IV text and/or via binding regulatory technical standards being developed by the European Banking Authority or changes to the way in which the PRA interprets and applies these requirements to UK banks, including as regards individual models approvals granted under CRD II and III. For example, further guidelines published by the Basel Committee in

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January 2014 regarding the calculation of the leverage ratio are expected to be incorporated into EU and UK law during 2014.

In addition the Financial Policy Committee of the Bank of England has legal powers, where this is required to protect financial stability, to make recommendations about the application of prudential requirements, and has, or may be given, other powers including powers to direct the PRA and FCA to adjust capital requirements through sectoral capital requirements (SCR). Directions would apply to all UK banks and building societies, rather than to the Group specifically.

Such changes, either individually or in aggregate, may lead to unexpected enhanced requirements in relation to the Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated. This may result in a need for further management actions to meet the changed requirements, such as: increasing capital, reducing leverage and risk weighted assets, modifying legal entity structure (including with regard to issuance and deployment of capital and funding for the Group) and changing Barclays' business mix or exiting other businesses and/or undertaking other actions to strengthen Barclays position.

Structural reform

A number of jurisdictions have enacted or are considering legislation and rule making that could have a significant impact on the structure, business risk and management of the Group and of the financial services industry more generally. Key developments that are relevant to Barclays include:

- The UK Financial Services (Banking Reform) Act 2013, gives UK authorities the power to implement key recommendations of the Independent Commission on Banking, including: (i) the separation of the UK and EEA retail banking activities of the largest UK banks into a legally, operationally and economically separate and independent entity (so called 'ring fencing'); (ii) statutory depositor preference in insolvency; (iii) a reserve power for the PRA to enforce full separation of the retail operations of UK banks to which the reforms apply under certain circumstances; and (iv) a 'bail-in' stabilisation option as part of the powers of the UK resolution authority.
- The European Commission proposals of January 2014 for a directive to implement recommendations of the EU High Level Expert Group Review (the Liikanen Review). The directive would apply to EU globally significant financial institutions and envisages, among other things: (i) a ban on engaging in proprietary trading in financial instruments and commodities; (ii) giving supervisors the power and, in certain instances, the obligation to require the transfer of other trading activities deemed to be 'high risk' to separate legal trading entities within a banking group; and (iii) rules governing the economic, legal, governance and operational links between the separated trading entity and the rest of the banking group;
- On 18 February 2014, the U.S. Board of Governors of the Federal Reserve System (FRB) issued final rules implementing various enhanced prudential standards under Section 165 of the DFA applicable to certain foreign banking organisations and their US operations, including Barclays. Because its total US and non-US assets exceed \$50 billion, Barclays would be subject to the most stringent

requirements of the final rules, including the requirement to create a US intermediate holding company (IHC) structure to hold its US banking and non-banking subsidiaries, including Barclays Capital Inc. the Group's US broker-dealer subsidiary). The IHC would generally be subject to supervision and regulation, including as to regulatory capital and stress testing, by the FRB as if it were a US bank holding company of comparable size. In particular, under the final rules, the consolidated IHC would be subject to a number of additional supervisory and prudential requirements, including: (i) subject to certain limited exceptions, FRB regulatory capital requirements and leverage limits that are the same as those applicable to US banking organisations of comparable size; (ii) mandatory company-run and supervisory stress testing of capital levels and submission of a capital plan to the FRB; (iii) supervisory approval of and limitations on capital distributions by the IHC to Barclays Bank PLC; (iv) additional substantive liquidity requirements (including monthly internal liquidity stress tests and maintenance of specified liquidity buffers) and other liquidity risk management requirements; and (v) overall risk management requirements, including a US risk committee and a UK chief risk officer. The effective date of the final rule is 1 June 2014, although compliance with most of its requirements will be phased-in between 2015 and 2018. Barclays will not be required to form its IHC until 1 July 2016. The IHC will be subject to the US generally applicable minimum leverage capital requirement (which is different than the Basel III international leverage ratio, including to the extent that the generally applicable US leverage ratio does not include off-balance sheet exposures) starting 1 January 2018. In light of the recent release of the final rules, Barclays continues to evaluate their implications for Barclays. Nevertheless, the Group currently believes that, in the aggregate, the final rules (and, in particular, the leverage requirements in the final rules that will ultimately become applicable to the IHC) are likely to increase the operational costs and capital requirements and/or require changes to the business mix of Barclays' US operations, which ultimately may have an adverse effect on the Group's overall result of operations;

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- In the US, in December 2013, the relevant US regulatory agencies, finalised the rules implementing the requirements of Section 619 of the Dodd-Frank Act - the so-called 'Volcker Rule'. The Volcker Rule, once fully effective, will prohibit banking entities, including Barclays PLC, Barclays Bank PLC and their various subsidiaries and affiliates from undertaking certain 'proprietary trading' activities and will limit the sponsorship of, and investment in, private equity funds and hedge funds, in each case broadly defined, by such entities. These restrictions are subject to certain important exceptions and exemptions, as well as exemptions applicable to transactions and investments occurring 'solely outside of the United States'. The rules will also require the Group to develop an extensive compliance and monitoring programme (both inside and outside of the United States), subject to various executive officer attestation requirements, addressing proprietary trading and covered fund activities, and Barclays therefore expects compliance costs to increase. The final rules are highly complex and differ in certain significant respects from the rules as proposed in October 2011. As such, their full impact will not be known with certainty until market practices and structures develop under them. Subject entities are generally required to be in compliance by July 2015 (with certain provisions subject to possible extensions); and
- The European Commission's proposal for a directive providing for a new framework for the recovery and resolution of credit institutions and investment firms (the Recovery and Resolution Directive or RRD), which is expected to be finalised in 2014.

These laws and regulations and the way in which they are interpreted and implemented by regulators may have a number of significant consequences, including changes to the legal entity structure of the Group, changes to how and where capital and funding is raised and deployed within the Group, increased requirements for loss-absorbing capacity within the Group and/or at the level of certain legal entities or sub-groups within the Group and potential modifications to the business mix and model (including potential exit of certain business activities). These and other regulatory changes and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's profitability, operating flexibility, flexibility of deployment of capital and funding, return on equity, ability to pay dividends and/or financial condition. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group which could be material.

Recovery and resolution planning

There continues to be a strong regulatory focus on resolvability from international and UK regulators. The Group continues to work with all relevant authorities on recovery and resolution plans (RRP) and the detailed practicalities of the resolution process. This includes the provision of information that would be required in the event of a resolution, in order to enhance the Group's resolvability. The Group made its first formal RRP submissions to the UK and US regulators in mid-2012 and has continued to work with the relevant authorities to identify and address any impediments to resolvability. The second US resolution plan was submitted in October 2013 and Barclays anticipates annual submissions hereafter.

The EU has agreed the text of the RRD and expects to finalise the legislation in 2014. The RRD establishes a framework for the recovery and resolution of credit institutions and investment firms. The aim of this regime is to provide authorities with the tools to intervene sufficiently early and quickly in a failing institution so as to ensure the continuity of the institution or firm's critical financial and economic functions while minimising the impact of its failure on the financial system. The regime is also intended to ensure that shareholders bear losses first and that certain creditors bear losses after shareholders, provided that no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings. The Directive provides resolution authorities with powers to require credit institutions to make significant changes in order to enhance recovery or resolvability. These include, amongst others, the powers to require the group to: make changes to its legal or operational structures (including demanding that the Group be restructured into units which are more readily resolvable); limit or cease specific existing or proposed activities; hold a specified minimum amount of liabilities subject to write down or conversion powers under the so-called 'bail-in' tool. The proposal is to be implemented in all European Member States by 1 January 2015, with the exception of the bail-in powers which must be implemented by 1 January 2016.

In the UK, recovery and resolution planning is now considered part of continuing supervision. Removal of barriers to resolution will be considered as part of the PRA's supervisory strategy for each firm, and the PRA can require firms to make significant changes in order to enhance resolvability. The UK will also need to consider how it will transpose the RRD into UK law.

Whilst Barclays believes that it is making good progress in reducing impediments to resolution, should the relevant authorities ultimately decide that the Group or any significant subsidiary is not resolvable, the impact of such structural changes (whether in connection with RRP or other structural reform initiatives) could impact capital, liquidity and leverage ratios, as well as the overall profitability of the Group, for example via duplicated infrastructure costs, lost cross-rate revenues and additional funding costs.

Regulatory action in the event of a bank failure

The UK Banking Act 2009, as amended (the Banking Act) provides for a regime to allow the Bank of England (or, in certain circumstances, HM Treasury) to resolve failing banks in the UK. Under the Banking Act, these authorities are given powers to make share transfer orders and property transfer orders. Following the Financial Services (Banking Reform) Act 2013 the authorities also have at their disposal a statutory bail-in power. This bail-in power is available to the UK resolution authority to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors. The bail-in power enables the UK resolution authority to cancel liabilities or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the bank under resolution and the power to convert liabilities into another form (e.g. shares).

The draft RRD includes provisions similar to the Banking Act for the introduction of statutory bail-in powers, including the power to (i) cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity and (ii) cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (including certain debt securities) of a failing financial institution

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and/or to convert certain debt claims into another security, including ordinary shares of the surviving Group entity, if any. The Banking Act bail in power is not expected to require significant amendments following finalisations of the RRD, but this cannot be guaranteed. Accordingly, if the Group were to be at or approaching the point of non-viability such as to require regulatory intervention, any exercise of any resolution regime powers by the relevant UK resolution authority may result in shareholders losing all or a part of their shareholdings and/or in the rights of shareholders being adversely affected, including by the dilution of their percentage ownership of the Barclays' share capital, and may result in creditors, including debt holders, losing all or a part of their investment in the Group's securities that could be subject to such powers.

In addition to the bail-in power, the powers currently proposed to be granted to the relevant UK resolution authority under the Banking Act and draft RRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply; (ii) transfer all or part of the business of the relevant financial institution to a 'bridge bank' (a publicly controlled entity); and (iii) transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

If these powers were to be exercised (or there is an increased risk of exercise) in respect of the Group or any entity within the Group could result in a material adverse effect on the rights or interests of shareholders and creditors including holders of debt securities and/or could have a material adverse effect on the market price of Barclays shares and other securities.

Market infrastructure reforms

The European Market Infrastructure Regulation (EMIR) introduces requirements to improve transparency and reduce the risks associated with the derivatives market. Certain of these requirements came into force in 2013 and others will enter into force in 2014. EMIR requires entities that enter into any form of derivative contract to: report every derivative contract entered into to a trade repository; implement new risk management standards for all bi-lateral over-the-counter derivative trades that are not cleared by a central counterparty; and clear, through a central counterparty, over-the-counter derivatives that are subject to a mandatory clearing obligation. CRD IV aims to complement EMIR by applying higher capital requirements for bilateral, over-the-counter derivative trades. Lower capital requirements for cleared trades are only available if the central counterparty is recognised as a 'qualifying central counterparty', which has been authorised or recognised under EMIR (in accordance with related binding technical standards). Further significant market infrastructure reforms will be introduced by amendments to the EU Markets in Financial Instruments Directive that are being finalised by the EU legislative institutions and are expected to be implemented in 2016.

In the US, the Dodd-Frank Act also mandates that many types of derivatives now traded in the over-the-counter markets must be traded on an exchange or swap execution facility and must be centrally cleared through a regulated clearing house. In addition, participants in these markets are now made subject to CFTC and SEC regulation and oversight. Entities required to register with the

CFTC as 'swap dealers' or 'major swap participants' and/or with the SEC as 'security-based swap dealers' or 'major security-based swap dealers' are or will be subject to business conduct, capital, margin, record keeping and reporting requirements. Barclays Bank PLC has provisionally registered with the CFTC as a swap dealer.

It is possible that other additional regulations, and the related expenses and requirements, will increase the cost of and restrict participation in the derivative markets, thereby increasing the costs of engaging in hedging or other transactions and reducing liquidity and the use of the derivative markets.

The new regulation of the derivative markets could adversely affect the business of Barclays Bank PLC and its affiliates in these markets and could make it more difficult and expensive to conduct hedging and trading activities, which could in turn reduce the demand for swap dealer and similar services of Barclays Bank PLC and its subsidiaries. In addition, as a result of these increased costs, the new regulation of the derivative markets may also result in the Group deciding to reduce its activity in these markets.

vii) Losses due to additional tax charges

The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at the EU level, and is impacted by a number of double taxation agreements between countries.

There is risk that the Group could suffer losses due to additional tax charges, other financial costs or reputational damage due to: failure to comply with, or correctly assess the application of, relevant tax law; failure to deal with tax authorities in a timely, transparent and effective manner (including in relation to historical transactions which might have been perceived as aggressive in tax terms); incorrect calculation of tax estimates for reported and forecast tax numbers; or provision of incorrect tax advice. Such charges, or conducting any challenge to a relevant tax authority, could lead to adverse publicity, reputational damage and potentially to costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the Group's operations, financial conditions and prospects.

In addition, any changes to the tax regimes applicable to the Group could have a material adverse effect on it. For example, depending on the terms of the final form of legislation as implemented, the introduction of the proposed EU Financial Transaction Tax could adversely affect certain of the Group's businesses and have a material adverse effect on the Group's operations, financial conditions and prospects.

viii) Implementation of the Transform programme and other strategic plans

The 'Transform programme' represents the current strategy of the Group, both for improved financial performance and cultural change, and the Group expects to incur significant restructuring charges and costs associated with implementing this strategic plan. The successful development and implementation of such strategic plans requires difficult, subjective and complex judgements, including forecasts of economic conditions in various parts of the world, and is subject to significant execution risks. For example, the Group's ability to implement successfully the Transform programme and other such strategic plans may be adversely impacted by a significant global macroeconomic downturn, legacy issues, limitations in the Group's management or operational capacity or significant and unexpected regulatory change in countries in which the Group operates. Moreover, progress on the various components

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of Transform (including reduction in costs relative to net operating income) is unlikely to be uniform or linear, and certain targets may be achieved slower than others, if at all.

Failure to implement successfully the Transform programme could have a material adverse effect on the Group's ability to achieve the stated targets, estimates (including with respect to future capital and leverage ratios and dividends payout ratios) and other expected benefits of the Transform programme and there is also a risk that the costs associated with implementing the scheme may be higher than the financial benefits expected to be achieved through the programme. In addition, the goals of embedding a culture and set of values across the Group and achieving lasting and meaningful change to the Group's culture may not succeed, which could negatively impact the Group's operations, financial condition and prospects.

Conduct risk

Conduct risk: detriment is caused to our customers, clients, counterparties or Barclays and its employees because of inappropriate judgement in the execution of our business activities.

Ineffective management of conduct risk may lead to poor outcomes for our customers, clients and counterparties or damage to market integrity. It may also lead to detriment to Barclays and its employees. Such outcomes are inconsistent with Barclays' purpose and values and may negatively impact the Group's results of operations, financial condition and prospects. They may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting and retaining talent. This could reduce – directly or indirectly – the attractiveness of the Group to stakeholders, including customers.

There are a number of areas where Barclays' conduct has not met the expectations of regulators and other stakeholders and where the Group has sustained financial and reputational damage in 2013, and where the consequences are likely to endure into 2014 and beyond. These include participation in London interbank offered rates (LIBOR) and interest rate hedging products, and Payment Protection Insurance (PPI). Provisions totalling £650m have been raised in respect of interest rate hedging products in 2013, bringing cumulative provisions to £1.5bn. Provisions of £1.35bn have been raised against PPI in 2013, bringing cumulative provisions to £3.95bn. To the extent that future experience is not in line with management's current estimates, additional provisions may be required and further reputational damage may be incurred.

Furthermore, the Group is from time to time subject to regulatory investigations which carry the risk of a finding that Barclays has been involved in some form of wrongdoing. It is not possible to foresee the outcome or impact of such findings other than fines or other forms of regulatory censure would be possible. There is a risk that there may be other conduct issues, including in business already written, of which Barclays is not presently aware.

Further details on PPI and interest rate hedging products, including a description of management judgements and estimates and sensitivity analysis on those estimates where available are provided in Note 27 (Provisions) to the financial statements. Further details on current regulatory investigations are provided in Note 29 (Legal Proceedings and Competition and Regulatory Matters).

Anti-money laundering, anti-bribery, sanctions and other compliance risks

A major focus of government policy relating to financial institutions in recent years (including, in particular, the UK and the US) has been combating money laundering, bribery and terrorist financing and enforcing compliance with economic sanctions. In particular, regulations applicable to the US operations of Barclays Bank and its subsidiaries impose obligations to maintain appropriate policies, procedures and internal controls to detect, prevent and report money laundering and terrorist financing. In addition, such regulations in the US require Barclays Bank and its subsidiaries to ensure compliance with US economic sanctions against designated foreign countries, organisations, entities and nationals among others.

The risk of non-compliance for large global banking groups, such as Barclays, are high given the nature, scale and complexity of the organisation and the challenges inherent in implementing robust controls. The Group also operates in some newer markets, such as Africa, Asia and the Middle East, where the risks of non-compliance are higher than in more established markets. Failure by Barclays to maintain and implement adequate programs to combat money laundering, bribery and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the organisation, including exposure to fines, criminal and civil penalties and other damages, as well as adverse impacts on the Group's ability to do business in certain jurisdictions.

Failure to comply fully with the Consumer Credit Act (CCA3)

As an example of non-compliance leading to costs of remediation, UK RBB has identified certain issues with the information contained in historical statements and arrears notices relating to consumer loan accounts and has therefore implemented a plan to return interest incorrectly charged to customers. Barclays is also undertaking a review of all its businesses where similar issues could arise, including Business Banking, Barclaycard, Barclays Wealth and Investment Management and Barclays Corporate Bank, to assess any similar or related issues. There is currently no certainty as to the outcome of this review. The findings of such review could have an adverse impact on the Group's operations, financial results and prospects.

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Risk factors

Reputation risk

Reputation risk: Damage to Barclays' brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical

Reputation risk is the risk of damage to the Barclays brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical and not in keeping with the bank's stated purpose and values (for example, the industry wide investigation into the setting of LIBOR and other benchmarks and the mis-selling of PPI to customers). Reputation risk may also arise from past, present or potential failures in corporate governance or management (for example, if Barclays were to provide funding or services to clients without fully implementing anti-money laundering, anti-bribery and corruption or similar precautions). In addition, reputation risk may arise from the actual or perceived manner in which Barclays conducts its business activities or in which business activities are conducted in the banking and financial industry generally.

Failure to appropriately manage reputation risk may reduce – directly or indirectly – the attractiveness of the Group to stakeholders, including customers and clients, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting and retaining talent. Sustained damage arising from conduct and reputation risks could have a materially negative impact on the Group's ability to operate fully and the value of the Group's franchise, which in turn could negatively affect the Group's operations, financial condition and prospects.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

The disclosures found within the Barclays Bank PLC credit risk section have been prepared to satisfy legal and regulatory requirements. Where additional disclosures exist in the Barclays PLC Annual Report, a reference has been provided to the relevant pages of the Barclays PLC Annual Report, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

Credit risk is the risk of the Group suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Group.

Introduction

Credit risk represents a significant risk to the Group and mainly arises from exposure to wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with clients.

As a result, this section provides substantial information on the Group's exposure to loans and advances to customer and banks, together with collateral held and net impairment charges raised in the year. In addition it provides information on balances that are categorised as Credit Risk Loans, balances in forbearance, as well as exposure to and performance metrics for specific portfolios and assets types, including, for example, residential home loans, interest-only home loans, cards and other unsecured lending UK commercial retail estate and exposure in Corporate Spain.

More details of the topics covered in the section may be found in the credit risk section of the contents on page 132 of the Barclays PLC Annual Report. Please see risk management section on pages 311-329 for details of governance, policies and procedures.

Analysis of the Group's maximum exposure and collateral and other credit enhancements held

Basis of preparation

The following tables present a reconciliation between the Group's maximum exposure and its net exposure to credit risk; reflecting the financial effects of collateral, credit enhancements and other actions taken to mitigate the Group's exposure.

For financial assets recognised on the balance sheet, maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment. For off-balance sheet guarantees, the maximum exposure is the maximum amount that Barclays

would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

This and subsequent analyses of credit risk include only financial assets subject to credit risk. They exclude other financial assets not subject to credit risk, mainly equity securities held for trading, as available for sale or designated at fair value, and traded commodities. Assets designated at fair value in respect of linked liabilities to customers under investment contracts have also not been included as the Group is not exposed to credit risk on these assets. Credit losses in these portfolios, if any, would lead to a reduction in the linked liabilities and not result in a loss to the Group.

Of the remaining exposure left unmitigated, a significant portion relates to cash held at central banks, available for sale and trading portfolio debt securities issued by governments, cash collateral and settlement balances, all of which are considered lower risk. The credit quality of counterparties to derivatives, available for sale, trading portfolio and wholesale loan assets are predominantly investment grade. Further analysis on the credit quality of assets is presented on pages 74 to 78.

Further detail on the Group's credit enhancement policies are presented on pages 320 to 323.

Overview

As at 31 December 2013, the Group's net exposure to credit risk after taking into account netting and set-off, collateral and risk transfer reduced 8% to £710.3bn, reflecting a reduction in maximum exposure of 11% and a reduction in the level of mitigation held by 14%. Overall, the extent to which the Group holds mitigation on its assets fell marginally to 53% (2012: 55%).

Where collateral has been obtained in the event of default, Barclays does not, as a rule, use such assets for its own operations and they are held for sale. The carrying value of assets held by the Group and the Bank as at 31 December 2013 as a result of the enforcement of collateral was £234m (2012: £298m^a) and £63m (2012: £76m^a).

Note

a 2012 amounts have been revised to more accurately reflect the population of assets held as a result of collateral enforcement.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)						
The Group	Maximum exposure	Netting and set-off	Collateral		Risk transfer	Net exposure
As at 31 December 2013	£m	£m	Cash £m	Non-cash £m	£m	£m
On-balance sheet:						
Cash and balances at central banks	45,687	-	-	-	-	45,687
Items in the course of collection from other banks	1,282	-	-	-	-	1,282
Trading portfolio assets:						
Debt securities	84,580	-	-	-	-	84,580
Traded loans	1,647	-	-	-	-	1,647
Total trading portfolio assets	86,227	-	-	-	-	86,227
Financial assets designated at fair value:						
Loans and advances	18,695	-	-	(6,840)	(301)	11,554
Debt securities	842	-	-	-	-	842
Reverse repurchase agreements	5,323	-	-	(5,006)	-	317
Other financial assets	678	-	-	-	-	678
Total financial assets designated at fair value	25,538	-	-	(11,846)	(301)	13,391
Derivative financial instruments	324,495	(258,528)	(33,511)	(7,888)	(8,830)	15,738
Loans and advances to banks	38,253	(1,012)	-	(3,798)	(391)	33,052
Loans and advances to customers:						
Home loans	179,527	-	(239)	(176,014)	(941)	2,333
Credit cards, unsecured and other retail lending	70,378	(8)	(1,182)	(18,566)	(2,243)	48,379
Corporate loans	180,506	(9,366)	(775)	(42,079)	(7,572)	120,714
Total loans and advances to customers	430,411	(9,374)	(2,196)	(236,659)	(10,756)	171,426
Reverse repurchase agreements and other similar secured lending	186,779	-	-	(184,896)	-	1,883
Available for sale debt securities	91,298	-	-	(777)	-	90,521
Other assets	1,998	-	-	-	-	1,998
Total on-balance sheet	1,231,968	(268,914)	(35,707)	(445,864)	(20,278)	461,205
Off-balance sheet:						
Contingent liabilities	19,675	-	(1,081)	(950)	(556)	17,088
Documentary credits and other short term trade related transactions	780	-	(3)	(35)	(4)	738
Forward starting reverse repurchase agreements	19,936	-	-	(19,565)	-	371
Standby facilities, credit lines and other commitments	254,855	-	(1,220)	(20,159)	(2,529)	230,947
Total off-balance sheet	295,246	-	(2,304)	(40,709)	(3,089)	249,144
Total	1,527,214	(268,914)	(38,011)	(486,573)	(23,367)	710,349

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)

The Group	Maximum	Netting	Collateral		Risk	Net
	exposure	and set-off	Cash	Non-cash	transfer	exposure
As at 31 December 2012	£m	£m	£m	£m	£m	£m
On-balance sheet:						
Cash and balances at central banks	86,191	-	-	-	-	86,191
Items in the course of collection from other banks	1,473	-	-	-	-	1,473
Trading portfolio assets:						
Debt securities	116,307	-	-	-	-	116,307
Traded loans	2,410	-	-	-	-	2,410
Total trading portfolio assets	118,717	-	-	-	-	118,717
Financial assets designated at fair value:						
Loans and advances	21,996	-	(1)	(7,499)	(111)	14,385
Debt securities	6,975	-	(23)	-	-	6,952
Reverse repurchase agreements	6,034	-	-	(5,165)	-	869
Other financial assets	1,229	-	-	-	-	1,229
Total financial assets designated at fair value	36,234	-	(24)	(12,664)	(111)	23,435
Derivative financial instruments	469,156	(387,672)	(46,855)	(6,328)	(8,132)	20,169
Loans and advances to banks	40,871	(1,012)	-	(5,071)	(136)	34,652
Loans and advances to customers:						
Home loans	174,988	-	(179)	(172,543)	(53)	2,213
Credit cards, unsecured and other retail lending	66,414	(10)	(909)	(17,703)	(2,321)	45,471
Corporate loans	182,504	(10,243)	(1,055)	(47,526)	(8,489)	115,191
Total loans and advances to customers	423,906	(10,253)	(2,143)	(237,772)	(10,863)	162,875
Reverse repurchase agreements and other similar secured lending	176,522	-	-	(174,918)	-	1,604
Available for sale debt securities	74,671	-	(1)	(233)	(32)	74,405
Other assets	2,001	-	-	-	-	2,001
Total on-balance sheet	1,429,742	(398,937)	(49,023)	(436,986)	(19,274)	525,522
Off-balance sheet:						
Contingent liabilities	21,857	-	(919)	(1,420)	(555)	18,963
Documentary credits and other short-term trade related transactions	1,027	-	(15)	(33)	(11)	968
Forward starting reverse repurchase agreements	23,549	-	-	(23,343)	-	206
Standby facilities, credit lines and other commitments	247,816	-	(1,013)	(16,960)	(3,396)	226,447
Total off-balance sheet^a	294,249	-	(1,947)	(41,756)	(3,962)	246,584
Total	1,723,991	(398,937)	(50,970)	(478,742)	(23,236)	772,106

Note

a Off balance sheet commitments have been revised to reflect the inclusion of forward starting reverse repurchase agreements

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)						
The Bank	Maximum exposure	Netting and set-off	Collateral		Risk transfer	Net exposure
As at 31 December 2013	£m	£m	Cash £m	Non-cash £m	£m	£m
On-balance sheet:						
Cash and balances at central banks	42,139	-	-	-	-	42,139
Items in the course of collection from other banks	992	-	-	-	-	992
Trading portfolio assets:						
Debt securities	54,402	-	-	-	-	54,402
Traded loans	1,647	-	-	-	-	1,647
Total trading portfolio assets	56,049	-	-	-	-	56,049
Financial assets designated at fair value:						
Loans and advances	18,338	-	-	(6,474)	(107)	11,757
Debt securities	58,059	(13,425)	-	-	(39,179)	5,455
Reverse repurchase agreements	487	-	-	-	-	487
Other financial assets	3,709	-	-	(3,550)	-	159
Total financial assets designated at fair value	80,593	(13,425)	-	(10,024)	(39,286)	17,858
Derivative financial instruments	337,566	(282,822)	(33,313)	(7,798)	(8,665)	4,968
Loans and advances to banks	50,105	(19,875)	-	-	(270)	29,960
Loans and advances to customers:						
Home loans	149,974	-	(212)	(148,339)	(869)	554
Credit cards, unsecured and other retail lending	34,066	-	(670)	(10,439)	(1,820)	21,137
Corporate loans	279,004	(9,033)	(601)	(31,357)	(34,283)	203,730
Total loans and advances to customers	463,044	(9,033)	(1,483)	(190,135)	(36,972)	225,421
Reverse repurchase agreements and other similar secured lending	182,290	-	-	(179,750)	-	2,540
Available for sale debt securities	82,052	-	-	-	-	82,052
Other assets	15,758	-	-	-	-	15,758
Total on-balance sheet	1,310,588	(325,155)	(34,797)	(387,707)	(85,193)	477,736
Off-balance sheet:						
Contingent liabilities	19,610	-	(920)	(742)	(480)	17,468
Documentary credits and other short term trade related transactions	570	-	(3)	(35)	(4)	528
Standby facilities, credit lines and other commitments	217,301	-	(1,074)	(28,086)	(2,529)	185,612
Total off-balance sheet	237,481	-	(1,997)	(28,863)	(3,013)	203,608
Total	1,548,069	(325,155)	(36,794)	(416,570)	(88,206)	681,344

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)						
The Bank	Maximum exposure	Netting and set-off	Collateral		Risk transfer	Net exposure
As at 31 December 2012	£m	£m	Cash £m	Non-cash £m	£m	£m
On-balance sheet:						
Cash and balances at central banks	81,996	-	-	-	-	81,996
Items in the course of collection from other banks	1,076	-	-	-	-	1,076
Trading portfolio assets:						
Debt securities	64,827	-	-	-	-	64,827
Traded loans	2,393	-	-	-	-	2,393
Total trading portfolio assets	67,220	-	-	-	-	67,220
Financial assets designated at fair value:						
Loans and advances	21,065	-	(1)	(6,918)	(111)	14,035
Debt securities	56,500	(12,949)	-	-	(38,887)	4,664
Reverse repurchase agreements	3,530	-	-	(3,508)	-	22
Other financial assets	1,097	-	-	-	-	1,097
Total financial assets designated at fair value	82,192	(12,949)	(1)	(10,426)	(38,998)	19,818
Derivative financial instruments^a	476,129	(393,398)	(46,478)	(6,219)	(8,018)	22,016
Loans and advances to banks	51,175	(15,622)	-	-	(7)	35,546
Loans and advances to customers:						
Home loans	143,684	-	(226)	(140,164)	(6)	3,288
Credit cards, unsecured and other retail lending	31,513	-	(892)	(10,310)	(411)	19,900
Corporate loans	299,526	(10,026)	(1,134)	(37,304)	(38,183)	212,879
Total loans and advances to customers^b	474,723	(10,026)	(2,252)	(187,778)	(38,600)	236,067
Reverse repurchase agreements and other similar secured lending	174,284	-	-	(172,621)	-	1,663
Available for sale debt securities	61,554	-	-	-	(32)	61,522
Other assets^c	11,205	-	-	-	-	11,205
Total on-balance sheet	1,481,554	(431,995)	(48,731)	(377,044)	(85,655)	538,129
Off-balance sheet:						
Contingent liabilities	21,166	-	(756)	(925)	(386)	19,099
Documentary credits and other short term trade related transactions	744	-	(6)	(32)	(1)	705
Standby facilities, credit lines and other commitments	206,829	-	(943)	(34,791)	(3,316)	167,779
Total off-balance sheet	228,739	-	(1,705)	(35,748)	(3,703)	187,583
Total	1,710,293	(431,995)	(50,436)	(412,792)	(89,358)	725,712

Note

a 2012 amounts have been revised following the identification of £8.2bn of additional netting opportunities and £5.6bn of additional collateral.

b 2012 amounts have been revised by £6.2bn to more accurately reflect the amount of risk transfer mitigating the exposure

c Other assets have been revised to include £10.2bn of additional balances identified as being subject to credit risk.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Concentrations of credit risk

A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Barclays Bank Group implements limits on concentrations in order to mitigate the risk. The analyses of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged. Further detail on the Barclays Bank Group's policies with regard to managing concentration risk is presented on page 306.

Geographic concentrations

As at 31 December 2013, the geographic concentration of the Barclays Bank Group's assets remained broadly consistent with 2012. 37% (2012: 35%) of the exposure is concentrated in the UK, 24% (2012: 26%) in Europe and 29% (2012: 28%) in the Americas.

The most significant change in concentrations was for cash held at central banks. A significant reduction in Europe was noted, primarily with the European Central Bank, following the change in composition of the liquidity pool from cash and balances at central banks to government bonds; as a result UK cash contributed a higher proportion of the total. This also increased holdings in UK, Europe and Americas, available for sales debt securities.

Credit risk concentrations by geography (audited)

	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
As at 31 December 2013						
The Group						
On-balance sheet:						
Cash and balances at central banks	7,307	29,983	4,320	2,111	1,966	45,687
Items in the course of collection from other banks	756	242	-	284	-	1,282
Trading portfolio assets	15,947	21,040	37,122	2,165	9,953	86,227
Financial assets designated at fair value	17,487	2,632	3,399	1,372	648	25,538
Derivative financial instruments	98,947	112,254	85,580	2,901	24,813	324,495
Loans and advances to banks	6,446	11,605	10,565	2,581	7,056	38,253
Loans and advances to customers	235,770	74,657	67,467	39,582	12,935	430,411
Reverse repurchase agreements and other similar secured lending	34,027	32,820	102,922	1,887	15,123	186,779
Available for sale debt securities	29,540	33,816	20,189	5,875	1,878	91,298
Other assets	917	380	260	324	117	1,998
Total on-balance sheet	447,144	319,429	331,824	59,082	74,489	1,231,968
Off-balance sheet:						
Contingent liabilities	10,349	2,475	4,521	2,110	220	19,675
Documentary credits and other short-term trade related transactions	496	121	-	163	-	780
Forward starting reverse repurchase agreements	5,254	3,903	4,753	4	6,022	19,936
Standby facilities, credit lines and other commitments	102,456	35,612	99,240	15,584	1,963	254,855
Total off-balance sheet	118,555	42,111	108,514	17,861	8,205	295,246
Total	565,699	361,540	440,338	76,943	82,694	1,527,214

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by geography (audited)

	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2012						
The Group						
On-balance sheet:						
Cash and balances at central banks	3,547	70,173	6,568	2,354	3,549	86,191
Items in the course of collection from other banks	788	313	-	371	1	1,473
Trading portfolio assets	16,540	21,526	63,998	3,056	13,597	118,717
Financial assets designated at fair value	24,113	4,476	5,094	1,947	604	36,234
Derivative financial instruments	147,651	157,609	127,377	4,264	32,255	469,156
Loans and advances to banks	7,915	14,915	12,278	2,110	3,653	40,871
Loans and advances to customers	228,008	81,267	61,859	45,930	6,842	423,906
Reverse repurchase agreements and other similar secured lending	29,565	25,309	98,313	4,133	19,202	176,522
Available for sale debt securities	24,018	29,803	11,128	7,103	2,619	74,671
Other assets	987	332	328	290	64	2,001
Total on-balance sheet	483,132	405,723	386,943	71,558	82,386	1,429,742
Off-balance sheet:						
Contingent liabilities	10,343	3,372	5,045	2,342	755	21,857
Documentary credits and other short-term trade related transactions	629	103	-	295	-	1,027
Forward starting reverse repurchase agreements	7,186	5,331	4,597	6	6,429	23,549
Standby facilities, credit lines and other commitments	100,260	32,736	91,574	21,637	1,609	247,816
Total off-balance sheet^a	118,418	41,542	101,216	24,280	8,793	294,249
Total	601,550	447,265	488,159	95,838	91,179	1,723,991

Credit risk concentrations by geography (audited)

	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2013						
The Bank						
On-balance sheet:						
Cash and balances at central banks	7,287	29,692	3,381	127	1,652	42,139
Items in the course of collection from other banks	755	237	-	-	-	992
Trading portfolio assets	15,744	20,362	13,066	345	6,532	56,049
Financial assets designated at fair value	70,882	5,993	2,640	340	738	80,593
Derivative financial instruments	109,041	114,197	87,558	1,889	24,881	337,566
Loans and advances to banks	6,233	11,422	24,578	1,860	6,012	50,105
Loans and advances to customers	336,570	68,132	43,055	4,618	10,669	463,044
Reverse repurchase agreements and other similar secured lending	32,594	36,419	88,903	1,365	23,009	182,290
Available for sale debt securities	27,638	32,144	20,139	253	1,878	82,052
Other assets	11,868	3,790	-	16	84	15,758
Total on-balance sheet	618,612	322,388	283,320	10,813	75,455	1,310,588
Off-balance sheet:						
Contingent liabilities	12,357	2,235	4,509	290	219	19,610
Documentary credits and other short-term trade related transactions	495	14	-	61	-	570
Standby facilities, credit lines and other commitments	107,718	35,606	69,602	1,937	2,438	217,301
Total off-balance sheet	120,570	37,855	74,111	2,288	2,657	237,481
Total	739,182	360,243	357,431	13,101	78,112	1,548,069

Note

a Off balance sheet commitments have been revised to reflect the inclusion of forward starting reverse repurchase agreements

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by geography (audited)

As at 31 December 2012	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
The Bank						
On-balance sheet:						
Cash and balances at central banks	3,321	69,691	5,481	195	3,308	81,996
Items in the course of collection from other banks	785	287	-	4	-	1,076
Trading portfolio assets	15,997	20,031	22,941	413	7,838	67,220
Financial assets designated at fair value	75,730	3,446	2,353	104	559	82,192
Derivative financial instruments	158,987	158,220	124,265	2,360	32,297	476,129
Loans and advances to banks	7,130	18,083	20,768	1,041	4,153	51,175
Loans and advances to customers	347,712	71,171	41,881	5,601	8,358	474,723
Reverse repurchase agreements and other similar secured lending	29,251	32,212	85,223	3,808	23,790	174,284
Available for sale debt securities	20,882	27,103	10,378	572	2,619	61,554
Other assets ^a	5,732	4,534	904	3	32	11,205
Total on-balance sheet	665,527	404,778	314,194	14,101	82,954	1,481,554
Off-balance sheet:						
Contingent liabilities	12,340	2,792	5,024	257	753	21,166
Documentary credits and other short-term trade related transactions	627	6	-	111	-	744
Standby facilities, credit lines and other commitments	100,832	34,020	65,108	2,037	4,832	206,829
Total off-balance sheet^b	113,799	36,818	70,132	2,405	5,585	228,739
Total	779,326	441,596	384,326	16,506	88,539	1,710,293

Industrial concentrations

As at 31 December 2013, the industrial concentration of the Group's assets remained broadly consistent year on year. 48% (2012: 50%) of total assets were concentrated towards banks and other financial institutions, predominantly within derivative financial instruments which decreased significantly during the year. The proportion of the overall balance concentrated towards governments and central banks reduced to 12% (2012: 14%) primarily driven by the reduction in cash balances held within the liquidity pool. Home loans now contribute 13% (2012: 11%) of the total, due to growth within UK RBB.

Note

a Other assets have been revised to include internal balances. This resulted in an increase of £10.2bn of additional balances identified as being subject to credit risk. This resulted in an increase of £4.9bn in the UK, £4.4bn in Europe and £1bn in Americas.

b Off balance sheet commitments have been revised to reflect the inclusion of forward starting reverse repurchase agreements. This resulted in a £17.7bn increase in total exposure.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industry (audited)

As at 31 December 2013	Banks £m	Other financial insti- tutions £m	Manu- facturing £m	Const- ruction and property £m	Govern- ment and central bank £m	Energy and water £m	Wholesale and retail distrib- ution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Group												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	45,687	-	-	-	-	-	-	45,687
Items in the course of collection from other banks	1,174	-	-	-	108	-	-	-	-	-	-	1,282
Trading portfolio assets	6,970	18,069	1,379	655	50,964	3,265	545	3,312	-	-	1,068	86,227
Financial assets designated at fair value	4,720	2,835	164	8,589	5,613	162	327	3,038	-	-	90	25,538
Derivative financial instruments	219,218	78,032	1,782	2,621	6,630	8,334	1,690	3,733	-	-	2,455	324,495
Loans and advances to banks	36,138	-	-	-	2,115	-	-	-	-	-	-	38,253
Loans and advances to customers	-	99,355	10,343	23,951	4,988	7,452	12,864	20,062	179,527	52,715	19,154	430,411
Reverse repurchase agreements and other similar secured lending	62,180	116,148	-	1,083	6,019	-	23	1,326	-	-	-	186,779
Available for sale debt securities	15,625	12,817	25	97	56,780	-	21	5,435	-	-	498	91,298
Other assets	470	1,295	-	17	82	-	-	134	-	-	-	1,998
Total on-balance sheet	346,495	328,551	13,693	37,013	178,986	19,213	15,470	37,040	179,527	52,715	23,265	1,231,968
Off-balance sheet:												
Contingent liabilities	1,620	4,783	2,243	882	302	2,275	1,391	4,709	9	295	1,166	19,675
Documentary credits and other short term trade related transactions	270	4	51	10	-	9	181	171	-	82	2	780
Forward starting reverse repurchase agreements	13,884	5,650	-	-	2	-	-	400	-	-	-	19,936
Standby facilities, credit lines and other commitments	1,886	29,348	24,381	8,935	2,839	23,765	13,221	17,474	18,751	102,088	12,167	254,855
Total off-balance sheet	17,660	39,785	26,675	9,827	3,143	26,049	14,793	22,754	18,760	102,465	13,335	295,246
Total	364,155	368,336	40,368	46,840	182,129	45,262	30,263	59,794	198,287	155,180	36,600	1,527,214

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industrial sector

As at 31 December 2012	Banks	Other financial insti- tutions	Manu- facturing	Const- ruction and property	Government	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Group												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	86,191	-	-	-	-	-	-	86,191
Items in the course of collection from other banks	1,473	-	-	-	-	-	-	-	-	-	-	1,473
Trading portfolio assets	9,240	25,966	2,072	504	73,848	3,124	446	2,257	-	-	1,260	118,717
Financial assets designated at fair value	5,798	3,677	175	10,087	11,579	335	600	3,581	-	-	402	36,234
Derivative financial instruments	349,481	81,090	2,401	4,478	9,589	10,011	2,203	6,906	-	-	2,997	469,156
Loans and advances to banks	39,251	-	-	-	1,620	-	-	-	-	-	-	40,871
Loans and advances to customers	-	86,330	11,518	25,877	4,788	7,622	14,603	24,152	171,993	55,645	21,378	423,906
Reverse repurchase agreements and other similar secured lending	64,616	106,231	4	1,014	3,684	261	98	610	-	-	4	176,522
Available for sale debt securities	16,933	10,267	92	91	46,177	122	42	846	-	-	101	74,671
Other assets	249	632	2	34	165	6	8	192	13	694	6	2,001
Total on-balance sheet	487,041	314,193	16,264	42,085	237,641	21,481	18,000	38,544	172,006	56,339	26,148	1,429,742
Off-balance sheet:												
Contingent liabilities	1,369	4,701	2,532	1,218	1,690	2,684	1,484	4,219	89	333	1,538	21,857
Documentary credits and other short-term trade related activities	559	51	55	3	-	1	77	275	-	4	2	1,027
Forward starting reverse repurchase agreements	17,853	5,086	20	-	1	-	33	548	-	8	-	23,549
Standby facilities, credit lines and other commitments ^a	8,068	26,396	24,937	8,675	3,829	21,790	10,566	13,727	17,538	96,993	15,297	247,816
Total off-balance sheet^b	27,849	36,234	27,544	9,896	5,520	24,475	12,160	18,769	17,627	97,338	16,837	294,249
Total	514,890	350,427	43,808	51,981	243,161	45,956	30,160	57,313	189,633	153,677	42,985	1,723,991

Note

a 2012 amounts have been revised to accurately reflect the exposures within these industries. This resulted in a £8,068m increase in Banks and a corresponding decrease in Other financial institutions.

b Off balance sheet commitments have been revised to reflect the inclusion of forward starting reverse repurchase agreements

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industry (audited)

As at 31 December 2013	Banks £m	Other financial insti- tutions £m	Manu- facturing £m	Const- ruction and property £m	Govern- ment and central bank £m	Energy and water £m	Wholesale and retail distrib- ution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Bank												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	42,139	-	-	-	-	-	-	42,139
Items in the course of collection from other banks	992	-	-	-	-	-	-	-	-	-	-	992
Trading portfolio assets	6,418	6,779	650	524	35,432	2,749	311	2,455	-	-	731	56,049
Financial assets designated at fair value	2,947	60,375	163	8,506	5,290	134	194	2,971	-	-	13	80,593
Derivative financial instruments	218,526	91,856	1,834	2,621	6,631	8,325	1,676	3,762	-	-	2,335	337,566
Loans and advances to banks	48,522	-	-	-	1,583	-	-	-	-	-	-	50,105
Loans and advances to customers	-	193,248	8,900	20,122	4,651	6,519	11,481	24,822	149,974	32,969	10,358	463,044
Reverse repurchase agreements and other similar secured lending	37,560	140,099	-	59	3,597	-	-	975	-	-	-	182,290
Available for sale debt securities	12,810	11,870	25	65	52,032	-	13	4,740	-	-	497	82,052
Other assets	43	15,523	-	5	70	-	-	117	-	-	-	15,758
Total on-balance sheet	327,818	519,750	11,572	31,902	151,425	17,727	13,675	39,842	149,974	32,969	13,934	1,310,588
Off-balance sheet:												
Contingent liabilities	1,428	5,066	2,060	751	33	2,278	1,247	4,870	-	275	1,602	19,610
Documentary credits and other short term trade related transactions	270	-	42	-	-	-	134	42	-	82	-	570
Standby facilities, credit lines and other commitments	13,004	30,921	22,733	8,536	2,834	23,173	10,855	17,629	16,053	59,870	11,694	217,301
Total off-balance sheet	14,702	35,987	24,835	9,287	2,867	25,451	12,236	22,541	16,053	60,227	13,296	237,481
Total	342,520	555,737	36,407	41,189	154,292	43,178	25,911	62,383	166,027	93,196	27,230	1,548,069

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industrial sector

As at 31 December 2012	Banks	Other financial institutions	Manu- facturing	Const- ruction and property	Government	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Bank												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	81,996	-	-	-	-	-	-	81,996
Items in the course of collection from other banks	1,076	-	-	-	-	-	-	-	-	-	-	1,076
Trading portfolio assets	3,030	11,446	1,032	371	45,868	2,463	289	1,805	-	-	916	67,220
Financial assets designated at fair value	3,505	58,772	95	9,847	5,781	299	394	3,384	-	-	115	82,192
Derivative financial instruments	345,987	91,655	2,504	4,476	9,583	9,930	2,176	6,867	-	-	2,951	476,129
Loans and advances to banks	49,976	-	-	-	1,199	-	-	-	-	-	-	51,175
Loans and advances to customers	-	215,814	9,800	20,157	4,273	6,641	12,884	20,577	140,742	32,071	11,764	474,723
Reverse repurchase agreements and other similar secured lending	40,548	129,364	-	82	3,659	257	93	281	-	-	-	174,284
Available for sale debt securities	13,769	8,662	92	86	38,535	122	34	200	-	-	54	61,554
Other assets ^a	64	9,994	1	17	152	-	-	424	12	541	-	11,205
Total on-balance sheet	457,955	525,707	13,524	35,036	191,046	19,712	15,870	33,538	140,754	32,612	15,800	1,481,554
Off-balance sheet:												
Contingent liabilities	639	7,147	2,224	802	1,616	2,498	1,177	3,648	2	227	1,186	21,166
Documentary credits and other short-term trade related activities	-	446	35	2	-	-	77	178	-	4	2	744
Standby facilities, credit lines and other commitments	17,749	31,368	22,930	7,434	3,665	20,484	8,842	15,115	15,439	53,935	9,868	206,829
Total off-balance sheet^b	18,388	38,961	25,189	8,238	5,281	22,982	10,096	18,941	15,441	54,166	11,056	228,739
Total	476,343	564,668	38,713	43,274	196,327	42,694	25,966	52,479	156,195	86,778	26,856	1,710,293

Notes

a Other assets have been revised to include £10.2bn of additional balances identified as being subject to credit risk. This resulted in an increase of £9.9bn in Other financial institutions and £0.3bn in Business and other services.

b Off balance sheet commitments have been revised to reflect the inclusion of forward starting reverse repurchase agreements

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality

The following tables present the credit quality of Group assets exposed to credit risk.

Basis of preparation

For performing loans that are neither past due nor impaired, which form the majority of loans in the portfolios, the following internal measures of credit quality have been used for the purposes of this analysis:

- Strong: there is a very high likelihood of the asset being recovered in full, these include investment grade.
- Satisfactory – while there is a high likelihood that the asset will be recovered and, therefore, is of no current cause for concern to the Group, the asset may not be collateralised, or may relate to facilities such as unsecured loans and credit card balances; and
- Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency.

Non-performing loans - loans that are impaired or are past due but not impaired - have been included in the Higher risk category for this analysis with prior year comparatives restated to align presentation. An age analysis of both is presented on pages 80 to 81.

For assets held at fair value, the carrying value on the balance sheet will include, among other things, the credit risk of the issuer. Most listed and some unlisted securities are rated by external rating agencies. The Group mainly uses external credit ratings provided by Standard & Poor's or Moody's. Where such ratings are not available or are not current, the Group will use its own internal ratings for the securities.

Overview

As at 31 December 2013, the proportion of the Group's assets classified as strong remains flat at 83% (2012: 83%) of total assets exposed to credit risk.

Traded assets continued to remain mostly investment grade, with counterparties to 95% (2012: 94%) of total derivative financial instruments, and issuers of 95% (2012: 94%) of debt securities held for trading and 96% (2012: 93%) of debt securities held available for sale being investment grade. The credit quality of counterparties to reverse repurchase agreements held at amortised cost remained broadly stable at 76% (2012: 73%). The credit risk of these assets is much reduced with balances being fully collateralised.

In the loan portfolios, 85% of home loans (2012: 82%) to customers are measured as strong. The increase in the period reflects the acquisition of the largely strong credit quality portfolio in Barclays Direct during the year and improvements in the UK portfolio. The majority of credit card, unsecured and other retail lending remained satisfactory, reflecting the unsecured nature of a significant proportion of the balance, comprising 70% of the total (2012: 69%). The credit quality profile of the Group's wholesale lending improved with counterparties rated strong increasing to 69% (2012: 66%), primarily due to increases in settlement and collateral balances generally rated strong in the Investment Bank.

Further analysis of debt securities by issuer and issuer type is presented on page 178 of the Barclays PLC Annual Report.

Further information on netting and collateral arrangements on derivatives financial instruments is presented on pages 178 to 180 of the Barclays PLC Annual Report.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality (audited)

As at 31st December 2013	Strong (Including Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Including Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B- and below) %	Maximum Exposure to Credit Risk %
The Group								
Cash and balances at central banks	45,687	-	-	45,687	100%	0%	0%	100%
Items in the course of collection from other banks	1,218	51	13	1,282	95%	4%	1%	100%
Trading portfolio assets:								
Debt securities	80,210	3,633	737	84,580	95%	4%	1%	100%
Traded loans	526	700	421	1,647	32%	42%	26%	100%
Total trading portfolio assets	80,736	4,333	1,158	86,227	94%	5%	1%	100%
Financial assets designated at fair value:								
Loans and advances	17,020	1,017	658	18,695	91%	5%	4%	100%
Debt securities	403	36	403	842	48%	4%	48%	100%
Reverse repurchase agreements	4,492	794	37	5,323	84%	15%	1%	100%
Other financial assets	255	191	232	678	38%	28%	34%	100%
Total financial assets designated at fair value	22,170	2,038	1,330	25,538	87%	8%	5%	100%
Derivative financial instruments	309,229	14,549	717	324,495	95%	4%	1%	100%
Loans and advances to banks	35,581	1,634	1,038	38,253	93%	4%	3%	100%
Loans and advances to customers:								
Home loans	153,299	14,373	11,855	179,527	85%	8%	7%	100%
Credit cards, unsecured and other retail lending	14,728	50,100	5,550	70,378	22%	70%	8%	100%
Corporate loans	124,560	46,187	9,759	180,506	69%	26%	5%	100%
Total loans and advances to customers	292,587	110,660	27,164	430,411	68%	26%	6%	100%
Reverse repurchase agreements and other similar secured lending	141,861	44,906	12	186,779	76%	24%	0%	100%
Available for sale debt securities	87,888	1,354	2,056	91,298	96%	2%	2%	100%
Other assets	1,598	340	60	1,998	80%	17%	3%	100%
Total Assets	1,018,555	179,865	33,548	1,231,968	83%	14%	3%	100%

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality (audited)

As at 31st December 2012	Strong (Including Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Including Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B- and below) %	Maximum Exposure to Credit Risk %
The Group								
Cash and balances at central banks	86,191	-	-	86,191	100%	0%	0%	100%
Items in the course of collection from other banks	1,337	103	33	1,473	91%	7%	2%	100%
Trading portfolio assets:								
Debt securities	108,379	5,841	2,087	116,307	93%	5%	2%	100%
Traded loans	460	1,617	333	2,410	19%	67%	14%	100%
Total trading portfolio assets	108,839	7,458	2,420	118,717	92%	6%	2%	100%
Financial assets designated at fair value:								
Loans and advances	19,608	1,684	704	21,996	89%	8%	3%	100%
Debt securities	6,219	287	469	6,975	89%	4%	7%	100%
Reverse repurchase agreements	5,010	963	61	6,034	83%	16%	1%	100%
Other financial assets	664	462	103	1,229	54%	38%	8%	100%
Total financial assets designated at fair value	31,501	3,396	1,337	36,234	87%	9%	4%	100%
Derivative financial instruments	443,112	23,498	2,546	469,156	94%	5%	1%	100%
Loans and advances to banks	37,077	2,868	926	40,871	91%	7%	2%	100%
Loans and advances to customers:								
Home loans	142,828	20,407	11,753	174,988	82%	11%	7%	100%
Credit cards, unsecured and other retail lending	15,169	45,852	5,393	66,414	23%	69%	8%	100%
Corporate loans	121,161	51,196	10,147	182,504	66%	28%	6%	100%
Total loans and advances to customers	279,158	117,455	27,293	423,906	66%	28%	6%	100%
Reverse repurchase agreements and other similar secured lending	129,687	46,644	191	176,522	73%	27%	0%	100%
Available for sale debt securities	69,871	2,331	2,469	74,671	94%	3%	3%	100%
Other assets	1,623	322	56	2,001	81%	16%	3%	100%
Total Assets	1,188,396	204,075	37,271	1,429,742	83%	14%	3%	100%

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality (audited)

As at 31st December 2013	Strong (Including Investment Grade)	Satisfactory (BB+ to B)	Higher Risk (B- and below)	Maximum Exposure to Credit Risk	Strong (Including Investment Grade)	Satisfactory (BB+ to B)	Higher Risk (B- and below)	Maximum Exposure to Credit Risk
The Bank								
Cash and balances at central banks	42,139	-	-	42,139	100%	-	-	100%
Items in the course of collection from other banks	903	69	20	992	91%	7%	2%	100%
Trading portfolio assets:								
Debt securities	50,188	3,924	290	54,402	92%	7%	1%	100%
Traded loans	526	700	421	1,647	32%	42%	26%	100%
Total trading portfolio assets	50,714	4,624	711	56,049	91%	8%	1%	100%
Financial assets designated at fair value:								
Loans and advances	16,951	985	402	18,338	92%	6%	2%	100%
Debt securities	58,058	1	-	58,059	100%	0%	0%	100%
Reverse repurchase agreements	3,026	677	6	3,709	82%	18%	0%	100%
Other financial assets	179	77	231	487	37%	16%	47%	100%
Total financial assets designated at fair value	78,214	1,740	639	80,593	97%	2%	1%	100%
Derivative financial instruments	322,763	14,086	717	337,566	96%	4%	0%	100%
Loans and advances to banks	46,744	2,518	843	50,105	93%	5%	2%	100%
Loans and advances to customers:								
Home loans	134,964	5,848	9,162	149,974	90%	4%	6%	100%
Credit cards, unsecured and other retail lending	7,369	24,364	2,333	34,066	21%	72%	7%	100%
Corporate loans	237,050	34,056	7,898	279,004	85%	12%	3%	100%
Total loans and advances to customers	379,383	64,268	19,393	463,044	82%	14%	4%	100%
Reverse repurchase agreements and other similar secured lending	154,148	28,130	12	182,290	85%	15%	0%	100%
Available for sale debt securities	80,215	47	1,790	82,052	98%	0%	2%	100%
Other assets	15,725	25	8	15,758	100%	0%	0%	100%
Total Assets	1,170,948	115,507	24,133	1,310,588	89%	9%	2%	100%

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality (audited)

As at 31st December 2012	Strong (Including Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Including Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B- and below) %	Maximum Exposure to Credit Risk %
The Bank								
Cash and balances at central banks	81,996	-	-	81,996	100%	0%	0%	100%
Items in the course of collection from other banks	946	108	22	1,076	88%	10%	2%	100%
Trading portfolio assets:								
Debt securities	59,621	4,499	707	64,827	92%	7%	1%	100%
Traded loans	454	1,606	333	2,393	19%	67%	14%	100%
Total trading portfolio assets	60,075	6,105	1,040	67,220	89%	9%	2%	100%
Financial assets designated at fair value:								
Loans and advances	19,291	1,443	331	21,065	91%	7%	2%	100%
Debt securities	56,354	53	93	56,500	100%	0%	0%	100%
Reverse repurchase agreements	3,116	398	16	3,530	89%	11%	0%	100%
Other financial assets	639	356	102	1,097	59%	32%	9%	100%
Total financial assets designated at fair value	79,400	2,250	542	82,192	97%	3%	0%	100%
Derivative financial instruments	450,326	23,257	2,546	476,129	95%	5%	0%	100%
Loans and advances to banks	45,245	5,082	848	51,175	88%	10%	2%	100%
Loans and advances to customers:								
Home loans	127,644	7,592	8,448	143,684	89%	5%	6%	100%
Credit cards, unsecured and other retail lending	8,681	20,251	2,581	31,513	28%	64%	8%	100%
Corporate loans	250,361	38,768	10,397	299,526	84%	13%	3%	100%
Total loans and advances to customers	386,686	66,611	21,426	474,723	81%	14%	5%	100%
Reverse repurchase agreements and other similar secured lending	145,795	28,475	14	174,284	84%	16%	0%	100%
Available for sale debt securities	58,586	713	2,255	61,554	95%	1%	4%	100%
Other assets	11,084	101	20	11,205	99%	1%	0%	100%
Total Assets^a	1,320,139	132,702	28,713	1,481,554	89%	9%	2%	100%

Note

a Other assets have been revised to include £10.2bn of additional 'strong' balances identified as being subject to credit risk.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Impairment allowances (audited)

Impairment allowances decreased 7% to £7,258m, principally due to a reduction in corporate loans reflecting lower balances in Corporate Banking Europe, largely due to actions to reduce exposure in the Spanish property and construction sectors, and lower working capital funding requirements from UK counterparties.

Movements in allowance for impairment by asset class

	At beginning of year	Acquisitions and disposals	Unwind of discount	Exchange and other adjustments	Amounts written off	Recoveries	Amounts charged to income statement	Balance at 31 December
	£m	£m	£m	£m	£m	£m	£m	£m
2013								
The Group								
Home loans	855	-	(38)	(147)	(199)	30	287	788
Credit cards, unsecured and other retail lending	3,780	(5)	(132)	50	(2,050)	123	1,837	3,603
Corporate loans	3,164	-	(9)	(163)	(1,094)	48	921	2,867
Total impairment allowance	7,799	(5)	(179)	(260)	(3,343)	201	3,045	7,258
The Bank								
Home loans	295	-	(8)	(5)	(54)	3	122	353
Credit cards, unsecured and other retail lending	2,717	-	(106)	189	(1,286)	75	1,106	2,695
Corporate loans	3,830	-	(3)	(366)	(996)	37	1,017	3,519
Total impairment allowance	6,842	-	(117)	(182)	(2,336)	115	2,245	6,567

Movements in allowance for impairment by asset class (audited)

	At beginning of year	Acquisitions and disposals	Unwind of discount	Exchange and other adjustments	Amounts written off	Recoveries	Amounts charged to income statement	Balance at 31 December
	£m	£m	£m	£m	£m	£m	£m	£m
2012								
The Group								
Home loans	834	-	(45)	(33)	(382)	24	457	855
Credit cards, unsecured and other retail lending	4,540	(59)	(144)	(248)	(2,102)	119	1,674	3,780
Corporate loans	3,522	(21)	(22)	75	(1,635)	69	1,176	3,164
Total impairment allowance	8,896	(80)	(211)	(206)	(4,119)	212	3,307	7,799
The Bank								
Home loans	286	-	(6)	(18)	(47)	2	78	295
Credit cards, unsecured and other retail lending	2,974	-	(105)	(5)	(1,286)	83	1,056	2,717
Corporate loans	4,159	-	-	(112)	(1,308)	39	1,052	3,830
Total impairment allowance	7,419	-	(111)	(135)	(2,641)	124	2,186	6,842

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Age analysis of loans and advances that are past due (audited)

The following tables present an age analysis of loans and advances that are past due but not impaired and loans that are assessed as impaired. These loans are reflected in the balance sheet credit quality tables on pages 75 to 78 as being Higher Risk.

Loans and advances past due but not impaired						
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2013						
The Group						
Loans and advances designated at fair values	113	45	9	10	170	347
Home loans	36	5	19	76	51	187
Credit cards, unsecured lending and other retail lending	103	37	16	56	109	321
Corporate Loans	4,210	407	308	248	407	5,580
Total	4,462	494	352	390	737	6,435
The Bank						
Loans and advances designated at fair values	113	26	-	-	71	210
Home loans	22	5	14	38	18	97
Credit cards, unsecured lending and other retail lending	60	3	7	21	92	183
Corporate Loans	3,364	308	214	185	322	4,393
Total	3,559	342	235	244	503	4,883

Loans and advances past due but not impaired						
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2012						
The Group						
Loans and advances designated at fair values	108	50	39	19	176	392
Home loans	127	23	48	42	39	279
Credit cards, unsecured lending and other retail lending	133	6	6	8	35	188
Corporate Loans	4,261	471	459	236	427	5,854
Total	4,629	550	552	305	677	6,713
The Bank						
Loans and advances designated at fair values	108	30	-	8	56	202
Home loans	76	14	29	30	21	170
Credit cards, unsecured lending and other retail lending	118	1	4	3	29	155
Corporate Loans	4,223	381	348	218	443	5,613
Total	4,525	426	381	259	549	6,140

Age analysis and impairment allowances for loans and advances are shown below. For further analysis of loans and advances showing different management analysis please refer to the Barclays PLC Annual Report:

Retail and wholesale loan portfolio analysis on page 151
 Analysis by industry and geography on pages 152 to 153
 Analysis by business on page 154
 Analysis by asset class on page 154
 Potential credit risk loans on page 156
 Forbearance on page 157

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Analysis of loans and advances assessed as impaired (audited)

The following tables present an age analysis of loans and advances collectively impaired, total individually impaired loans, and total impairment allowance.

Loans and advances assessed as impaired

	Collectively assessed					Total	Individually assessed	Total
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over			
As at 31 December 2013	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Home loans	5,726	2,161	667	728	1,818	11,100	510	11,610
Credit cards, unsecured lending and other retail lending	1,589	1,029	411	632	2,866	6,527	1,548	8,075
Corporate Loans	1,047	40	35	59	400	1,581	3,892	5,473
Total	8,362	3,230	1,113	1,419	5,084	19,208	5,950	25,158
The Bank								
Home loans	5,285	1,553	444	583	731	8,596	467	9,063
Credit cards, unsecured lending and other retail lending	853	591	177	326	2,061	4,008	178	4,186
Corporate Loans	1,033	33	22	39	140	1,267	2,510	3,777
Total	7,171	2,177	643	948	2,932	13,871	3,155	17,026

Loans and advances assessed as impaired

	Collectively assessed					Total	Individually assessed	Total
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over			
As at 31 December 2012	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Home loans	4,649	2,297	650	888	1,964	10,448	783	11,231
Credit cards, unsecured lending and other retail lending	1,539	938	345	550	2,864	6,236	1,617	7,853
Corporate Loans	344	57	46	57	872	1,376	4,010	5,386
Total	6,532	3,292	1,041	1,495	5,700	18,060	6,410	24,470
The Bank								
Home loans	4,247	1,587	462	624	716	7,636	493	8,129
Credit cards, unsecured lending and other retail lending	1,018	582	187	305	1,886	3,978	477	4,455
Corporate Loans	279	42	26	34	650	1,031	5,951	6,982
Total	5,544	2,211	675	963	3,252	12,645	6,921	19,566

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Exit Quadrant assets^a

On 12 February 2013, the Group announced as part of its Strategic Review that, following a rigorous bottom-up analysis of each of its businesses based on the attractiveness of the sector they operate in and their ability to generate sustainable returns on equity above cost of equity, it would be exiting certain assets.

The table below presents selected financial data for these Exit Quadrant assets.

	CRD IV RWAs ^b		Balance Sheet		Income/ (Expense) £m	2013 Impairment (charge)/ release £m	Net operating (expense)/ income £m
	2013 £bn	2012 £bn	2013 £bn	2012 £bn			
Investment Bank							
US residential mortgages	1.1	5.3	0.5	2.2	478	-	478
Commercial mortgages and real estate	1.6	3.1	2.0	4.0	182	-	182
Leveraged and other loans	9.7	10.1	6.0	11.5	(88)	11	(77)
CLOs and other insured assets	3.2	5.9	11.7	16.3	(281)	-	(281)
Structured credit and other	3.8	9.4	5.2	8.6	(128)	-	(128)
Monoline derivatives	2.2	3.1	0.3	0.6	(21)	-	(21)
Corporate derivatives	1.9	8.3	2.2	3.6	-	-	-
Portfolio assets	23.5	45.2	27.9	46.8	142	11	153
Pre-CRD IV rates portfolio	18.7	33.9					
Total Investment Bank	42.2	79.1					
Corporate Banking European assets	3.2	5.0	2.6	3.9	80	(321)	(241)
Europe RBB assets	9.0	9.7	21.3	22.9	118	(187)	(69)
Total	54.4	93.8					

Exit Quadrant income shown on page 153 differs from the income above due to revenues relating to associated litigation matters and recoverability of certain assets not yet received from the 2008 US Lehman acquisition.

The CRD IV RWAs of the Exit Quadrant businesses decreased £39.4bn to £54.4bn including reductions of £36.9bn in the Investment Bank. This reflects reductions in Investment Bank portfolio assets of £21.7bn to £23.5bn, relating to US Residential, Structured Credit Portfolios and optimisation initiatives within the derivatives portfolio. Pre CRD IV Rates derivatives RWAs decreased £15.2bn to £18.7bn. RWAs in Corporate Banking and Europe RBB Exit Quadrant portfolios decreased due to continued asset run down.

Portfolio Assets balance sheet assets decreased £18.9bn to £27.9bn driven by net sales and paydowns across asset classes. Income of £142m was primarily driven by gains relating to US Residential Mortgage exposures, partially offset by funding charges on Collateralised Loan Obligations and Other Insured Assets and the acceleration of disposals. Portfolio Assets income reduced to £142m (2012: £578m), largely driven by a reduction in fair value gains on US Residential Mortgages and sale of Commercial Real Estate loans.

Corporate Banking Exit Quadrant balance sheet assets in Europe decreased £1.3bn to £2.6bn largely driven by reductions in Spain and Portugal.

Europe RBB Exit Quadrant balance sheet assets decreased £1.6bn to £21.3bn largely driven by mortgage reductions in Spain and Italy, partially offset by foreign currency movements.

Note

a The Exit Quadrant Assets note is subject to audit, excluding RWAs

b The table above provides an indication of the CRD IV RWAs that are currently allocated to the Exit Quadrant businesses

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Exposures to Eurozone countries (audited)

Overview

The Group recognises the credit and market risk resulting from the ongoing volatility in the Eurozone and continues to monitor events closely while taking coordinated steps to mitigate the risks associated with the challenging economic environment. Risks associated with a potential partial break-up of the Euro area include:

- Direct risk arising from sovereign default of an exiting country and the impact on the economy of, and the Group's counterparties in, that country;
- Indirect risk arising from the subsequent impact on the economy of, and the Group's counterparties in, other Eurozone countries;
- Indirect risk arising from credit derivatives that reference Eurozone sovereign debt (see page 92); and
- Direct redenomination risk on the potential mismatch in the currency of the assets and liabilities on balance sheets of the Group's local operations in countries in the Eurozone (see page 93).

Contingency planning began in early 2012 based on a series of potential scenarios that might arise from an escalation in the crisis. Multiple tests have been run throughout 2012 and 2013 to establish the impact on customers, systems, processes and staff in the event of the most plausible scenarios. Where issues have been identified, appropriate remedial actions have either been completed or are underway.

During 2013 the Group's net on-balance sheet exposures to Spain, Italy, Portugal, Ireland, Cyprus and Greece reduced by 11% to £53bn. Exposure to retail customers and corporate clients reduced 17% to £13.0bn; largely reflecting reduced lending in Spain, Italy and Portugal as part of the active management to reduce redenomination risk. Sovereign exposure decreased 60% to £2.2bn principally due to a reduction in government bonds held as available for sale.

Basis of preparation

The Group presents the direct balance sheet exposure to credit and market risk by country, with the totals reflecting allowance for impairment, netting and cash collateral held where appropriate.

Trading and derivatives balances relate to Investment Bank activities, principally as market-maker for government bond positions. Positions are held at fair value, with daily movements taken through profit and loss:

- Trading assets and liabilities are presented by issuer type, whereby positions are netted to the extent allowable under IFRS. Where liability positions exceed asset positions by counterparty type, exposures are presented as nil;
- Derivative assets and liabilities are presented by counterparty type, whereby positions are netted to the extent allowable under IFRS. Cash collateral held is then added to give a net credit exposure. Where liability positions and collateral held exceed asset positions by counterparty type, exposures are presented as nil; and
- Assets designated at fair value include debt and equity securities, loans and reverse repurchase agreements that have been designated at fair value.

Available for sale investments principally relate to investments in government bonds and other debt securities. Balances are reported on a fair value basis, with movements in fair value going through other comprehensive income (OCI).

Loans and advances held at amortised cost^a comprise: (i) retail lending portfolios, predominantly mortgages secured on residential property; and (ii) corporate lending portfolios. Settlement balances and cash collateral are excluded from this analysis.

Sovereign exposures reflect direct exposures to central and local governments^b, the majority of which are used for hedging interest rate risk and liquidity purposes. The remaining portion is actively managed reflecting our role as a leading primary dealer, market maker and liquidity provider to our clients. Financial institution and corporate exposures reflect the country of operations of the counterparty or issuer depending on the asset class analysed (including foreign subsidiaries and without reference to cross-border guarantees). Retail exposures reflect the country of residence for retail customers and country of operations for business banking customers. Off-balance sheet exposure consists primarily of undrawn commitments and guarantees issued to third parties on behalf of our corporate clients.

Notes

^a The Group also enters into reverse repurchase agreements and other similar secured lending, which are materially fully collateralised.

^b In addition, the Group held cash with the central banks of these countries totalling £0.2bn as at 31 December 2013 (2012: £0.7bn). Other material balances with central banks are classified within loans to financial institutions.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Summary of Group exposures

The following table shows Barclays exposure to Eurozone countries monitored internally as being higher risk and thus being the subject of particular management focus. Detailed analysis on these countries is on pages 86 to 91^a. Exposures on loans and advances to geographic regions including Europe as a whole are set out on pages 152 and 153 of the Barclays PLC Annual Report. The net exposure provides the most appropriate measure of the credit risk to which the Group is exposed. The gross exposure is also presented below, alongside off-balance sheet contingent liabilities and commitments. Gross exposure reflects total exposures before the effects of economic hedging by way of trading portfolio liabilities, derivative liabilities and cash collateral, but after taking into account impairment allowances and IFRS netting.

Net exposure by country and counterparty (audited)

	Sovereign £m	Financial institutions £m	Corporate £m	Residential mortgages £m	Other retail lending £m	Total net on- balance sheet exposure £m	Contingent liabilities and commitments £m	Total net exposure £m
As at 31 December 2013								
Spain	184	1,029	3,203	12,537	2,292	19,245	3,253	22,498
Italy	1,556	417	1,479	15,295	1,881	20,628	3,124	23,752
Portugal	372	38	891	3,413	1,548	6,262	2,288	8,550
Ireland	67	5,030	1,356	103	100	6,656	2,047	8,703
Cyprus	-	7	106	19	43	175	66	241
Greece	8	5	51	6	12	82	3	85
As at 31 December 2012								
Spain	2,067	1,525	4,138	13,305	2,428	23,463	3,301	26,764
Italy	2,669	567	1,962	15,591	1,936	22,725	3,082	25,807
Portugal	637	48	1,958	3,474	1,783	7,900	2,588	10,488
Ireland	21	3,585	1,127	112	83	4,928	1,644	6,572
Cyprus	8	-	106	44	26	184	131	315
Greece	1	-	61	8	9	79	5	84

During 2013 the Group's net on-balance sheet exposures to Spain, Italy, Portugal, Ireland, Cyprus and Greece reduced by 11% to £53bn. This reduction is principally due to a decrease in sovereign exposures by 60% to £2.2bn which was driven by a reduction in Spanish sovereign exposure by 91% to £0.2bn due to the disposal of available for sale government bonds, held for the purpose of interest rate hedging and liquidity, which have been replaced by interest rate swaps with alternative counterparties. Italian sovereign exposure decreased 42% to £1.6bn principally due to a reduction in government bonds held as available for sale.

Residential mortgage exposure reduced by 4% to £31.4bn, reflecting lower new originations across Spain, Italy and Portugal in line with Group strategy to reduce redenomination risk. Other retail lending reduced by 6% to £5.9bn driven primarily by reduced lending to business banking customers in Spain and Portugal as a result of the challenging economic conditions. Corporate exposure reduced 24% to £7.1bn; largely reflecting reduced lending in Spain, Italy and Portugal as part of the active management to reduce redenomination risk. Exposures to financial institutions increased by 14% to £6.5bn, with increased exposure in Ireland relating to securitised lending offset predominately by reductions in exposures for Spain and Italy.

Note

^a Detailed analysis is not provided for Ireland as there is no redenomination risk due to local funding and due to significant risk relating to the underlying assets residing in an alternative country. The exposures for Cyprus and Greece are deemed immaterial to the Group.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Gross exposure by country and counterparty (audited)

	Sovereign £m	Financial institutions £m	Corporate £m	Residential mortgages £m	Other retail lending £m	Total gross on- balance sheet exposure £m	Contingent liabilities and commitments £m	Total gross exposure £m
As at 31 December 2013								
Spain	1,198	6,715	3,596	12,537	2,292	26,338	3,253	29,591
Italy	4,104	4,339	1,836	15,295	1,881	27,455	3,124	30,579
Portugal	526	171	950	3,413	1,548	6,608	2,288	8,896
Ireland	587	7,819	1,424	103	100	10,033	2,047	12,080
Cyprus	-	68	126	19	43	256	66	322
Greece	9	824	52	6	12	903	3	906
As at 31 December 2012								
Spain	2,900	9,291	4,450	13,305	2,428	32,374	3,301	35,675
Italy	5,429	7,725	2,348	15,591	1,936	33,029	3,082	36,111
Portugal	1,035	346	2,130	3,475	1,783	8,769	2,588	11,357
Ireland	56	8,432	1,395	112	83	10,078	1,644	11,722
Cyprus	9	102	119	44	26	300	131	431
Greece	3	1,181	61	8	9	1,262	5	1,267

Barclays has exposures to other Eurozone countries as set out below. Total net on-balance sheet exposures to individual countries that are less than £1bn are reported in aggregate under 'Other'.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Spain (audited)

Fair value through profit or loss

	Trading portfolio			Derivatives			Designated at	Total		
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2013	2012
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	1,020	(1,011)	9	28	(4)	-	24	107	140	476
Financial institutions	612	(114)	498	5,572	(5,572)	-	-	359	857	788
Corporate	479	(187)	292	398	(206)	-	192	421	905	817

Fair value through OCI

	Available for sale investments ^a			
	Cost	AFS reserve	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	22	1	23	1,562
Financial institutions	159	4	163	480
Corporate	7	1	8	10

Held at amortised cost

	Loans and advances			
	Gross	Impairment allowances	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	21	-	21	29
Financial institutions	24	(15)	9	257
Residential mortgages	12,670	(133)	12,537	13,305
Corporate	3,224	(934)	2,290	3,311
Other retail lending	2,453	(161)	2,292	2,428

Off-balance sheet

	Contingent liabilities and commitments	
	2013	2012
As at 31 December	£m	£m
Sovereign	-	-
Financial institutions	283	88
Residential mortgages	7	12
Corporate	1,831	1,938
Other retail lending	1,132	1,263

Note

a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Sovereign

- £184m (2012: £2,067m) largely consisting of holdings in government bonds held at fair value through profit and loss. During the period Spanish sovereign exposure reduced due to the disposal of AFS government bonds.

Financial institutions

- £857m (2012: £788m) held at fair value through profit and loss, predominantly debt securities held by the Investment Bank to support trading and market making activities; and
- £163m (2012: £480m) AFS investments with £4m (2012: £11m loss) cumulative gain held in AFS reserve.

Residential mortgages

- £12,537m (2012: £13,305m) fully secured on residential property with average balance weighted mark-to-market LTV of 63% (2012: 65%). The increase in LTV is reflected in the CRL coverage of 37% (2012: 36%); and
- 90 day arrears rates have remained stable at 0.7% and 1.1% respectively.

Corporate

- Net lending to corporates of £2,290m (2012: £3,311m) with CRLs of £1,651m (2012: £1,887), impairment allowance of £934m (2012: £1,060m) and CRL coverage of 57% (2012: 56%). Balances on EWL peaked in November 2010;
- The portfolio is kept under close review. EWL balances remain on the reducing trend seen since the peak in H110. Over this period, EWL balances have more than halved;
- Net lending to property and construction industry of £774m (2012: £1,188m) largely secured on real estate collateral, with CRLs of £1,112m (2012: £1,429m), impairment allowance of £659m (2012: £820m) and CRL coverage of 59% (2012: 57%);
- Corporate impairment in Spain was at its highest level during H110 when commercial property declines were reflected earlier in the cycle; and
- £284m (2012: £359m) lending to multinational and large national corporates, which continues to perform.

Other retail lending

- £961m (2012: £1,052m) credit cards and unsecured loans. 30 day arrears marginally improved while 90 day arrears rates increased. Gross charge off rates in credit cards and unsecured loans were stable in during the year; and
- £933m (2012: £1,045m) lending to small and medium enterprises (SMEs), largely secured against residential or commercial property.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Italy (audited)

Fair value through profit or loss

	Trading portfolio			Derivatives			Cash collateral	Designated at FV		Total	
	Assets	Liabilities	Net	Assets	Liabilities	Net		Assets	2013	2012	
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Sovereign	2,403	(2,324)	79	1,542	(224)	-	1,318	2	1,399	1,123	
Financial institutions	210	(145)	65	3,777	(2,831)	(946)	-	239	304	391	
Corporate	302	(144)	158	312	(107)	(107)	98	336	592	699	

Fair value through OCI

	Available for sale investments ^a			
	Cost	AFS reserve	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	154	3	157	1,537
Financial institutions	60	3	63	138
Corporate	27	2	29	29

Held at amortised cost

	Loans and advances			
	Gross	Impairment allowances	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	-	-	-	9
Financial institutions	50	-	50	38
Residential mortgages	15,433	(138)	15,295	15,591
Corporate	997	(139)	858	1,234
Other retail lending	1,978	(97)	1,881	1,936

Off-balance sheet

	Contingent liabilities and commitments	
	2013	2012
As at 31 December	£m	£m
Financial institutions	361	90
Residential mortgages	25	45
Corporate	2,069	2,158
Other retail lending	669	789

Note

a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Sovereign

- £1,399m (2012: £1,123m) predominantly of government bonds held at fair value through profit and loss and AFS government bonds of £157m (2012: £1,537m). AFS government bonds have a cumulative fair value gain of £3m (2012: £28m) held in the AFS reserve.

Residential mortgages

- £15,295m (2012: £15,591m) secured on residential property with average balance weighted marked to market LTVs of 60% (2012: 60%). CRL coverage of 24% (2012: 23%) marginally increased; and
- 90 day arrears at 1.1% (2012: 1.0%) were broadly stable, however gross charge off rates improved to 0.7% (2012: 0.8%).

Corporate

- £858m (2012: £1,234m) focused on large corporate clients with limited exposure to property sector; and
- Balances on EWL increased in 2013 due to the inclusion of a single counterparty. Excluding this counterparty, balances on early warning list have been broadly stable.

Other retail lending

- £982m (2012: £1,337m) Italian salary advance loans (repayment deducted at source by qualifying employers and Barclays is insured in the event of termination of employment or death). Arrears rates on salary loans deteriorated during 2013 while charge-off rates improved; and
- £394m (2012: £434m) of credit cards and other unsecured loans. Arrears rates (both 30 and 90 days) in cards and unsecured loans slightly increased while gross charge-off rates have improved.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Portugal (audited)

Fair value through profit or loss

	Trading portfolio			Derivatives			Net	Designated at FV	Totals	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral			Assets	2013
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	88	(67)	21	87	(87)	-	-	-	21	8
Financial institutions	18	(5)	13	129	(120)	(9)	-	-	13	18
Corporate	45	(18)	27	75	(37)	(4)	34	-	61	252

Fair value through OCI

	Available for sale investments ^a			
	Cost	AFS reserve	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	307	3	310	594
Financial institutions	2	-	2	2
Corporate	65	-	65	331

Held at amortised cost

	Loans and advances			
	Gross	Impairment allowances	2013 Total	2012 Total
As at 31 December	£m	£m	£m	£m
Sovereign	42	(1)	41	35
Financial institutions	23	-	23	28
Residential mortgages	3,460	(47)	3,413	3,474
Corporate	1,117	(352)	765	1,375
Other retail lending	1,714	(166)	1,548	1,783

Off-balance sheet

	Contingent liabilities and commitments	
	2013	2012
As at 31 December	£m	£m
Sovereign	-	-
Financial institutions	1	1
Residential mortgages	11	25
Corporate	627	889
Other retail lending	1,649	1,673

Note a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Sovereign

- £372m (2012: £637m) of largely AFS government bonds. No impairment and £3m (2012: £4m loss) cumulative fair value gain held in the AFS reserve.

Residential mortgages

- Secured on residential property with average balance weighted LTVs of 76% (2012: 78%). CRL coverage of 34% (2012: 29%) marginally increased; and
- 90 day arrears rates improved to 0.5% (2012: 0.7%) while recoveries impairment coverage increased to 31.9% (2012: 25.6%) driven by an increase in loss given default rates.

Corporate

- Net lending to corporates of £765m (2012: £1,375m), with CRLs of £548m (2012: £501m), impairment allowance of £352m (2012: £296m) and CRL coverage of 64% (2012: 59%); and
- Net lending to the property and construction industry of £217m (2012: £364m) secured, in part, against real estate collateral, with CRLs of £281m (2012: £275m), impairment allowance of £183m (2012: £149m) and CRL coverage of 65% (2012: 54%).

Other retail lending

- £890m (2012: £950m) credit cards and unsecured loans. During 2013, arrears rates in cards portfolio deteriorated while charge-off rates remained stable; and
- CRL coverage of 87% (2012: 74%) driven by credit cards and unsecured loans exposure.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Analysis of indirect exposures

Indirect exposure to sovereigns can arise through a number of different sources, including credit derivatives referencing sovereign debt; guarantees to savings and investment funds which hold sovereign risk; lending to financial institutions who themselves hold exposure to sovereigns and guarantees, implicit or explicit, by the sovereign to the Group's counterparties.

Credit derivatives referencing sovereign debt

The Group enters into credit mitigation arrangements (principally credit default swaps and total return swaps) for which the reference asset is government debt. For Spain, Italy and Portugal, these have the net effect of reducing the Group's exposure in the event of sovereign default. An analysis of the Group's credit derivatives referencing sovereign debt is presented below.

	Spain £m	Italy £m	Portugal £m	Ireland £m	Cyprus £m	Greece £m
As at 31 December 2013						
Fair value						
- Bought	59	311	186	(10)	1	-
- Sold	(51)	(289)	(183)	2	(1)	-
Net derivative fair value	8	22	3	(8)	-	-
Contract notional amount						
- Bought	(8,333)	(17,083)	(3,456)	(2,901)	(7)	-
- Sold	8,307	16,528	3,430	2,971	7	-
Net derivative notional amount	(26)	(555)	(26)	70	-	-
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(18)	(533)	(23)	62	-	-
As at 31 December 2012						
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(122)	(307)	(88)	44	-	-

The fair values and notional amounts of credit derivative assets and liabilities would be lower than reported under IFRS if netting was permitted for assets and liabilities with the same counterparty or for which we hold cash collateral. An analysis of the effects of such netting is presented below.

	Spain £m	Italy £m	Portugal £m	Ireland £m	Cyprus £m	Greece £m
As at 31 December 2013						
Fair value						
- Bought	31	88	72	(10)	1	-
- Sold	(23)	(66)	(69)	2	(1)	-
Net derivative fair value	8	22	3	(8)	-	-
Contract notional amount						
- Bought	(2,468)	(4,273)	(1,068)	(800)	(4)	-
- Sold	2,442	3,718	1,042	870	4	-
Net derivative notional amount	(26)	(555)	(26)	70	-	-
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(18)	(533)	(23)	62	-	-
As at 31 December 2012						
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(122)	(307)	(88)	44	-	-

Credit derivatives are contracts whereby the default risk of an asset (reference asset) is transferred from the buyer to the seller of the credit derivative contract. Credit derivatives referencing sovereign assets are bought and sold to support client transactions and for risk management purposes. The contract notional amount represents the size of the credit derivative contracts that have been bought or sold, while the fair value represents the change in the value of the reference asset. The net protection or exposure from credit derivatives in the event of sovereign default amount represents a net purchase or sale of insurance by the Group. This insurance reduces or increases the Group's total exposure and should be considered alongside the direct exposures disclosed in the preceding pages.

Barclays Risk Review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Exposure to Eurozone residential property sector

Barclays risk exposure and impairment in Spain and Portugal has been and will be affected by the housing sector in those countries as a result of changes to the bank's risk appetite in a declining housing sector, where the desired level of new business has been reduced, and with it, the total exposure.

The 2013 impairment charge to the residential mortgage book in Spain was £42m (2012: £72m) and in Portugal was £22m (2012: £24m). These decreases were principally driven by:

- Improvement in underlying performance following credit tightening and collections improvements; and
- A slowdown in the rate of growth in our Loss Given Default, driven by a slowdown in house price deterioration and a one off charge on Spain in 2012 not being repeated.

The impairment charge to our residential mortgage book in Italy increased to £41m (2012: £27m). However underlying portfolio performance is broadly in line with expectations, with 90 day arrears rates and charge off remaining broadly stable.

For information on our exposures to home loans in Spain, Portugal and Italy see pages 86 to 91.

Eurozone Balance Sheet Redenomination Risk

Redenomination risk is the risk of financial loss to the Group should one or more countries exit the Euro, leading to the devaluation of balance sheet assets and liabilities. The Group is directly exposed to redenomination risk where there is a mismatch between the level of locally denominated assets and liabilities.

Within Barclays, retail banking, corporate banking and wealth management activities in the Eurozone are generally booked locally within each country. Locally booked customer assets and liabilities, primarily loans and advances to customers and customer deposits, are predominantly denominated in Euros. The remaining funding needed is met through local funding secured against customer loans and advances, with any residual need funded through the Group.

During 2013, the net funding mismatch decreased €0.2bn to €11.6bn in Italy and €1.1bn to €3.0bn in Portugal. The surplus in Spain increased €0.8bn to €3.1bn.

Barclays continues to monitor the potential impact of the Eurozone volatility on local balance sheet funding and will consider actions as appropriate to manage the risk.

Direct exposure to Greece is very small with negligible net funding required from Group. For Ireland there is no local balance sheet funding requirement by the Group as total liabilities in this country exceed total assets.

Risk Review

Market risk

All disclosures in this section are unaudited unless otherwise stated

Market Risk

The disclosures within the Barclays Bank PLC market risk section have been prepared to satisfy legal and regulatory requirements. Where additional disclosures exist in the Barclays PLC annual report, a reference has been provided to the relevant pages of the Barclays PLC annual report, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

Traded Market Risk Review

Review of management measures

The following disclosures provide details on management measures of market risk. See page 325 for more detail on management measures and the differences when compared to regulatory measures.

The below table shows the total Investment Bank Management VaR on a diversified basis by risk type (see page 326 for risk factor definitions). Limits are applied against each risk type as well as total management VaR; these are then cascaded further by risk managers to each business.

The VaR numbers presented below also include 'risks not in VaR' (RNIVs), to better represent the market risk where the VaR model may not full represent some risk factors. For more information on RNIVs see page 326.

The daily average, maximum and minimum values of Management VaR						
For the year ended 31 December						
	2013			2012		
	Average £m	High ^a £m	Low ^a £m	Average £m	High ^a £m	Low ^a £m
Management VaR (95%)						
Credit risk	18	25	12	26	44	18
Interest rate risk	13	24	6	14	23	7
Spread risk	11	21	5	23	31	17
Basis risk	11	17	7	11	21	5
Equity risk	11	21	5	9	19	4
Commodity risk	5	8	2	6	9	4
Foreign exchange risk	4	7	2	6	10	2
Inflation risk	3	8	2	3	7	2
Diversification effect ^a	(47)	na	na	(60)	na	na
Total Management VaR	29	39	21	38	75	27

Average Management VaR reduced in 2013 due to a combination of lower client activity and improved market conditions, notably, tightening of credit spreads. Market volatility, which was mainly driven by Eurozone in the previous year, improved in 2013 along with general market sentiment, supported by improving macroeconomic trends in developed markets resulting in the review of quantitative easing programmes.

The three main contributors to total Management VaR were credit, interest rate and spread risks. From average 2012 levels, average VaR for credit risk fell by £8m (31%), interest rate risk fell by £1m (7%) and spread risk fell by £12m (52%). Overall average VaR for the Investment Bank fell by £9m (24%).

Equity risk VaR is the only risk factor that has shown an increase since 2012 as the business supported several key primary market activities over the year as well as increased volume.

The business remained within the Management VaR limits approved by the Board Financial Risk Committee (BFRC) throughout 2013 for both risk factor VaR and total VaR.

Note

^a 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.

Risk Review

Market risk

All disclosures in this section are unaudited unless otherwise stated

The Bank

Investment Bank's market risk exposure, as measured by average total DVaR of 95%, decreased by 24% to £29m (2012: £38m). The high for the year was £39m (2012: £75m) and the low for the year was £21m (2012: £27m).

Investment Bank Management VaR



Investment Bank daily trading revenue



The histogram above shows the distribution of daily revenue for the Investment Bank in 2013 and 2012. This includes all income generated by Investment Bank except for Private Equity and Principal Investments. Business performance is discussed in more detail on pages 152 - 153.

The average daily revenue at the Investment Bank in 2013 was £41m, down 11% from 2012, however, there were more positive trading revenue days in 2013 than in 2012, with 97% of days generating positive trading revenue compared to 88% in 2012. The volatility of income was lower in 2013, in line with the decrease in average Management VaR and lower market volatility.

Combined Scenario Stresses

As part of Barclays 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.

Similar to 2012, the scenarios analysed throughout 2013 showed the biggest market risk related impact would be due to a severe deterioration in liquidity and a rapid slowdown in global economy.

For further analysis of regulatory DVaR, SVaR, IRC and Price Risk Measure please refer to page 194 of the Barclays PLC Annual Report.

Risk Review

Market risk

All disclosures in this section are unaudited unless otherwise stated

Non-traded interest rate 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 held at 31 December 2013 and 31 December 2012. The sensitivity has been measured using the Annual Earnings at Risk (AEaR) methodology as described on page 333. The benchmark interest rate for each currency is set as at 31 December 2013. The effect of structural hedging is taken into account.

Net Interest Income Sensitivity (AEaR) by currency (audited)	31 December 2013		31 December 2012	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m
The Group				
GBP	92	(199)	96	(273)
USD	9	(21)	30	(23)
EUR	(18)	(7)	20	(49)
ZAR	10	(9)	27	(25)
Others	17	(7)	9	(4)
Total	110	(243)	182	(374)
As percentage of net interest income	0.94%	(2.09%)	1.56%	(3.21%)

Net Interest Income Sensitivity (AEaR) by currency (audited)	31 December 2013		31 December 2012	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m
The Bank				
GBP	79	(180)	60	(172)
USD	3	(6)	19	(14)
EUR	(4)	(1)	13	(31)
ZAR	-	-	17	(16)
Others	8	(4)	6	(3)
Total	86	(191)	115	(236)
As percentage of net interest income	0.94%	(2.10%)	1.57%	(3.22%)

For net interest income sensitivity by business unit and analysis of non-traded market risk using economic capital please refer to pages 195 to 196 of the Barclays PLC Annual Report.

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 (Present Value of 1bp) which is an indicator of the shift in asset value for a 1bp shift in the yield.

Analysis of equity sensitivity (audited)	31 December 2013		31 December 2012	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m
The Group				
Net Interest Income	110	(243)	182	(374)
Taxation effects on the above	(27)	61	(51)	105
Effect on profit for the year	83	(182)	131	(269)
As percentage of net profit after tax	6.31%	(13.91%)	396.97%	(815.15%)
Effect on profit for the year (per above)	83	(182)	131	(269)
Available for sale reserve	(861)	861	(673)	673
Cash flow hedge reserve	(2,831)	2,808	(2,179)	2,260
Taxation effects on the above	923	(917)	799	(821)
Effect on equity	(2,686)	2,570	(1,922)	1,843
As percentage of equity	(4.25%)	4.07%	(3.21%)	3.08%

Risk Review

Market risk

All disclosures in this section are unaudited unless otherwise stated

Analysis of equity sensitivity (audited)	31 December 2013		31 December 2012	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m
The Bank				
Net Interest Income	86	(191)	115	(236)
Taxation effects on the above	(22)	48	(32)	66
Effect on profit for the year	64	(143)	83	(170)
As percentage of net profit after tax	(1.88%)	4.18%	3.00%	(6.14%)
Effect on profit for the year (per above)	64	(143)	83	(170)
Available for sale reserve	(855)	855	(566)	566
Cash flow hedge reserve	(2,831)	2,808	(2,054)	2,134
Taxation effects on the above	922	(916)	733	(755)
Effect on equity	(2,700)	2,604	(1,804)	1,775
As percentage of equity	(5.10%)	4.91%	(3.98%)	3.92%

For analysis of net interest margins and balances please refer to pages 267 - 268 of the Barclays PLC Annual Report.

Foreign exchange risk (audited)

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.

There were no material net transactional foreign currency exposures outside the trading portfolio during 2013 or 2012. Due to the low level of non-trading exposures no reasonably possible change in foreign exchange rates would have a material effect on either the Group's profit or movements in equity for either of the years ended 31 December 2013 or 2012.

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 Common Equity Tier 1 capital.

The Group's strategy is to minimise the volatility of the capital ratios caused by foreign exchange movements, by using the Common Equity Core Tier 1 capital movements to broadly match the revaluation of the Group's foreign currency RWA exposures.

During 2013, total structural currency exposures net of hedging instruments remained stable at £16.2bn (2012: £15.7bn).

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.

Risk Review

Market risk

All disclosures in this section are unaudited unless otherwise stated

Functional currency of operations (audited)

	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
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
As at 31 December 2012						
US Dollar	34,798	6,251	13,861	14,686	4,822	9,864
Euro	5,314	1,494	1,990	1,830	1,951	(121)
Rand	4,080	-	131	3,949	-	3,949
Japanese Yen	597	175	407	15	-	15
Other	3,040	-	1,027	2,013	-	2,013
Total	47,829	7,920	17,416	22,493	6,773	15,720

For analysis of The Group's exposure to pension risk please refer to pages 197 of the Barclays PLC Annual Report.

Risk Review

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

The disclosures within the Barclays Bank PLC funding risk - capital section have been prepared to satisfy legal and regulatory requirements. Where additional disclosures exist in the Barclays PLC annual report, a reference has been provided to the relevant pages of the Barclays PLC annual report, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

Funding Risk – Capital

Capital risk is the risk that The Group is unable to maintain appropriate capital ratios, which could lead to (i) an inability to support business activity; (ii) a failure to meet regulatory requirements; or (iii) a change to credit ratings.

Capital management is integral to The Group's approach to financial stability and sustainability management and is therefore embedded in the way our Businesses and Legal Entities operate. Our capital management strategy is driven by the strategic aims of the Group and the risk appetite set by the Board.

For further information on funding capital risk policies, please refer to the Risk Management Section on pages 343 to 345.

For further information on future regulatory impacts and supervision and regulation, refer to pages 130 to 136.

Regulatory Capital	Barclays PLC Group 2013 £m	Barclays Bank Plc Group 2013 £m	Barclays PLC Group 2012 £m	Barclays Bank Plc Group 2012 £m
Core Tier 1 Capital	46,784	45,927	41,722	41,660
Tier 1 Capital	55,820	54,956	51,235	51,161
Tier 2 Capital	15,906	15,899	16,327	16,315
Deductions from total Capital	(1,056)	(1,056)	(1,689)	(1,689)
Total Capital resources	70,670	69,799	65,873	65,787

For additional commentary to explain the movement in Barclays PLC Core Tier 1 capital please refer to pages 199 to 207 of the Barclays PLC Annual Report.

Risk Review

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

Capital Composition

The capital composition of Barclays Bank Plc Group is broadly equivalent to Barclays Plc Group shown in the table below:

Key capital ratios

As at 31 December	2013	2012
Core Tier 1	13.2%	10.8%
Tier 1	15.7%	13.2%
Total capital	19.9%	17.0%

Capital Resources (audited)

As at 31 December	2013 £m	2012 £m
Shareholders' equity (excluding non-controlling interests) per balance sheet	55,385	50,615
- Less: CRD IV additional Tier 1 equity ^a	(2,063)	-
Own credit cumulative loss ^b	806	804
Unrealised losses/(gains) on available for sale debt securities ^b	3	(417)
Unrealised gains on available for sale equity (recognised as tier 2 capital) ^b	(151)	(110)
Cash flow hedging reserve ^b	(273)	(2,099)
Non-controlling interests per balance sheet	8,564	9,371
- Less: Other Tier 1 capital - preference shares	(6,131)	(6,203)
- Less: Non-controlling Tier 2 capital	(478)	(547)
Other regulatory adjustments to non-controlling interests	(23)	(171)
Other regulatory adjustments and deductions:		
Defined benefit pension adjustment ^b	195	49
Goodwill and intangible assets ^b	(7,618)	(7,622)
50% excess of expected losses over impairment ^b	(787)	(648)
50% of securitisation positions	(503)	(997)
Other regulatory adjustments	(142)	(303)
Core Tier 1 capital	46,784	41,722
Other Tier 1 capital:		
Preference shares	6,131	6,203
Tier 1 notes ^c	500	509
Reserve Capital Instruments ^c	2,858	2,866
	-	-
Regulatory adjustments and deductions:		
50% of material holdings	(459)	(241)
50% of the tax on excess of expected losses over impairment	6	176
Total Tier 1 capital	55,820	51,235
Tier 2 capital:		
Undated subordinated liabilities	1,522	1,625
Dated subordinated liabilities	13,626	14,066
Non-controlling Tier 2 capital	478	547
Reserves arising on revaluation of property ^b	7	39
Unrealised gains on available for sale equity ^b	153	110
Collectively assessed impairment allowances	1,875	2,002
	-	-
Tier 2 deductions:		
50% of material holdings	(459)	(241)
50% excess of expected losses over impairment (gross of tax)	(793)	(824)
50% of securitisation positions	(503)	(997)
Total capital regulatory adjustments and deductions:		
Investments that are not material holdings or qualifying holdings	(768)	(1,139)
Other deductions from total capital	(288)	(550)
Total regulatory capital	70,670	65,873

Notes

a Additional Tier 1 instruments that are not eligible for CRD III capital but are eligible under CRD IV rules.

b The capital impacts of these items are net of tax.

c Tier 1 notes and reserve capital instruments are included in subordinated liabilities in the consolidated balance sheet.

Risk Review

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

CRD IV as implemented by the Prudential Regulation Authority

The new Capital Requirements Regulation and amended Capital Requirements Directive have implemented Basel 3 within the EU (collectively known as CRD IV) with effect from 1 January 2014. However, certain aspects of CRD IV are dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission as well as UK implementation of the rules. Barclays has calculated RWAs, Capital and Leverage ratios reflecting our interpretation of the current rules and guidance. Further changes to the impact of CRD IV may emerge as the requirements are finalised and implemented within Barclays.

Capital ratios

Barclays continues to be in excess of minimum CRD IV capital ratios on both a transitional and fully loaded basis.

As at 31 December 2013 Barclays exceeded the PRA target fully loaded CET1 ratio of 7%. On a transitional basis the PRA has implemented a minimum requirement CET1 ratio of 4%, Tier 1 ratio of 5.5% (in 2014) and Total Capital ratio of 8%.

Barclays' current regulatory target is to meet a 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 1.4%^a of RWAs if the requirement were to be applied today. The Pillar 2A add-on would be expected to vary over time according to the PRA's individual capital 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.

Capital resources

The PRA has announced the acceleration of transitional provisions relating to CET1 deductions and filters so the fully loaded requirements are applicable from 1 January 2014, with the exception of unrealised gains on available for sale debt and equity. As a result, transitional capital ratios are now closely aligned to fully loaded ratios.

Following the issuance of the EBA's final draft technical standard on own funds, a deduction has been recognised for foreseeable dividends. As at 31 December 2013, this represents an accrual for the final dividend for 2013, calculated at 3.5p per share, and the coupons on other equity accounted instruments.

Grandfathering limits on capital instruments, previously qualifying as Tier 1 and Tier 2, are unchanged under the PRA transitional rules.

The Prudential Valuation Adjustment (PVA) is shown as fully deducted from CET1 upon adoption of CRD IV. PVA is subject to a technical standard being drafted by the EBA and the impact is currently based on methodology agreed with the PRA. The PVA deduction as at 31 December 2013 was £2.5bn.

Barclays continues to recognise minority interests in eligible subsidiaries within African operations as CET1 (subject to regulatory haircuts prescribed in CRD IV) in accordance with our application of regulatory requirements on own funds.

As a result of the application of the EBA's final draft technical standard, PRA guidance and management actions taken during 2013, net long non-significant holdings in financial entities amount to £3.5bn and are below the 10% CET1 threshold that would require a capital deduction.

RWAs

The PRA has confirmed Barclays model approvals under CRD IV, with certain provisions reflecting relevant changes to the rules and guidance; the impact of which has been reflected in our CRD IV disclosures where applicable. Barclays models are subject to continuous monitoring, update and regulatory review, which may result in future changes to CRD IV capital requirements.

It is assumed that corporates, pension funds and sovereigns that meet the eligibility conditions are exempt from CVA volatility charges.

Under CRD IV rules, all Central Clearing Counterparties (CCPs) are deemed to be 'Qualifying' on a transitional basis. The final determination of Qualifying status will be made by the European Securities and Markets Authority (ESMA).

RWAs include 1250% risk weighting of securitisation positions that were previously deducted from Core Tier 1 and Tier 2 capital. The RWA increases are reflected in Credit Risk, Counterparty Credit Risk and Market Risk.

Securitisation RWAs include the impact of CRD IV on applying either standardised or advanced methods for securitisation exposures dependent on the character of the underlying assets

Note

a Based on a point in time assessment made by the PRA, at least annually. The PRA is developing proposals to reform its Pillar 2 framework and, as noted in PS7/13 (PRA policy statement PS7/13 on strengthening capital standards published in December 2013), it expects to consult on those proposals during the course of 2014. The EBA is also developing guidelines on the Supervisory Review and Evaluation Process (SREP) and on Pillar 2 capital, which are likely to affect how the PRA approaches Pillar 2.

Risk Review

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

Impact of CRD IV - Capital

As at 31 December 2013	Fully-loaded £bn
Core Tier 1 capital (CRD III)	46.8
RWA (CRD III)	354.8
Core Tier 1 ratio (CRD III)	13.2%
CRD IV impact on Core Tier 1 capital:	
Conversion from securitisation deductions to RWAs	0.5
Prudential Valuation Adjustment (PVA)	(2.5)
Debit Valuation Adjustment (DVA)	(0.2)
Expected losses over impairment	(1.3)
Deferred tax assets deduction	(1.0)
Excess minority interest	(0.6)
Pensions	(0.2)
Foreseeable dividends	(0.7)
Gains on available for sale equity and debt	0.2
Other	(0.6)
CET1 Capital	40.4
Tier 1 Capital	42.7
Total Capital	61.6
RWAs (CRD III)	354.8
CRD IV impact to RWAs:	
Credit Valuation Adjustment (CVA)	17.3
Securitisation	19.3
Other Counterparty Credit Risk (including Central Counterparty Clearing)	30.6
Other ^a	13.6
RWA impact	80.8
CRD IV RWAs	435.6
CET1 ratio	9.3%
Tier 1 ratio	9.8%
Total Capital ratio	14.1%

For CRD IV RWA by risk type and business please refer to page 204 of the Barclays PLC Annual Report.

Leverage ratio requirements

CRD IV introduces a non-risk based leverage ratio that is intended to act as a supplementary back-stop to the risk-based capital measures. The CRD IV leverage ratio is calculated as CRD IV Tier 1 capital divided by CRD IV leverage exposure. Under CRD IV, banks are required to report their leverage ratio for supervisory review purposes from 2014 and from 2015 banks are required to publish their leverage ratios in Pillar 3 disclosures, with the expectation that a binding Pillar 1 requirement will be introduced across the EU from 2018. The EBA is tasked with monitoring banks' submissions with regard to the leverage ratio by end 2016 which may result in further changes to the leverage ratio.

The PRA has communicated its expectation that Barclays meets a 3% estimated PRA leverage ratio by June 2014. The estimated PRA leverage ratio is calculated on the fully loaded CRD IV Tier 1 capital base adjusted for certain PRA defined deductions, and a PRA adjusted^a CRD IV leverage exposure measure.

Barclays expects to meet the leverage expectation of 3% communicated by the PRA.

Note

b Based on a point in time assessment made by the PRA, at least annually. The PRA is developing proposals to reform its Pillar 2 framework and, as noted in PS7/13 (PRA policy statement PS7/13 on strengthening capital standards published in December 2013), it expects to consult on those proposals during the course of 2014. The EBA is also developing guidelines on the Supervisory Review and Evaluation Process (SREP) and on Pillar 2 capital, which are likely to affect how the PRA approaches Pillar 2.

Risk Review

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

Barclays has disclosed an estimated leverage ratio based on our understanding of the requirements and guidance of CRD IV as currently published and is subject to further change as the rules are fully implemented. The estimated ratio does not take account of the finalisation of the Basel 3 leverage ratio framework issued by the Basel Committee on 12 January 2014.

CRD IV leverage ratio calculation

In calculating the CRD IV leverage ratio the IFRS balance sheet is taken as a starting point and the following key adjustments to total assets have been applied:

- Derivatives netting adjustment: regulatory netting applied across asset and liability mark-to-market derivative positions pursuant to legally enforceable bilateral netting agreements and meeting the requirements of CRD IV;
- Potential Future Exposure (PFE) on derivatives: regulatory add-on for potential future credit exposures, calculated in accordance with the CRD IV mark-to-market method by assigning standardised percentages to the notional values on derivative contracts;
- Securities Financing Transactions (SFTs) adjustments: under CRD IV, the IFRS measure of SFTs is replaced with the Financial Collateral Comprehensive Method (FCCM) measure, calculated as an add-on equal to exposure less collateral, taking into account master netting agreements and adjusting for volatility haircuts;
- Undrawn Commitments: regulatory add-ons relating to off balance sheet undrawn commitments are based on a standardised credit conversion factor of 10% for unconditionally cancellable commitments and 100% for all other commitments. The rules specify relief to be applied to trade finance related undrawn commitments which are deemed to be medium/low risk (20%) and medium risk (50%);
- Regulatory deductions: items (comprising goodwill and intangibles, deferred tax asset permanent losses, own paper, cash flow hedge reserve, pension assets and PVA) that are deducted from the capital measure are also deducted from total leverage exposure to ensure consistency between the numerator and denominator;
- Other adjustments: includes adjustments required to change from an IFRS scope of consolidation to a regulatory scope of consolidation, adjustments for significant investments in financial sector entities that are consolidated for accounting purposes but not for regulatory purposes, and the removal of IFRS reduction in assets for the recognition of Credit Risk Mitigation and the netting of loans with deposits; and
- In addition, in accordance with SS3/13^b the estimated PRA adjusted leverage exposure allows for further adjustments that reduce leverage exposure by £14bn. These adjustments:
 - Exclude potential future exposure on the qualifying central clearing counterparties (QCCPs) legs of client clearing transactions where Barclays does not guarantee the performance of the QCCP to the client
 - Allow for the netting of assets with cash collateral received for variation margin in relation to derivatives trades to facilitate customer central clearing as well as cash collateral received and posted on Barclays own derivative transactions with QCCPs.

Basel Committee leverage Ratio

On 12 January 2014, the Basel Committee announced the finalisation of its revised rules for calculating the Basel 3 leverage ratio. These included a number of elements that would require amendments to CRD IV if adopted in the EU, although implementation timeframes within the EU are not yet clear. Compared to the current CRD IV implementation, the revised rules contain elements that will increase leverage exposure; including capturing a calculation for net written credit derivatives based upon their notional value and the inclusion of netted cash legs of SFTs. The revised rules also include elements that will reduce leverage exposure including, the removal of volatility haircuts in relation to the SFTs' add-on, the ability to net down derivative MTM exposures with eligible cash collateral (this element includes the impact of the PRA rule changes, and expands upon them), and more favourable credit conversion factors for undrawn commitments. Based on an initial high level impact analysis we have estimated the changes would decrease the CRD IV leverage ratio by approximately 20 basis points prior to management actions.

For the estimated impact of CRD IV on Leverage and Economic capital (EC) and its use as part of the ICAAP assessment (Pillar 2) please refer to pages 206 and 207 of the Barclays PLC Annual Report.

Notes

a Adjusted to avoid creating disincentives to facilitate central clearing for customers and cash variation margin received and posted (as specified under SS3/132)

b PRA Supervisory Statement SS3/13 on Capital and leverage ratios for major UK banks and building societies published in November 2013.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Liquidity risk

The disclosures within the Barclays Bank PLC funding risk – liquidity section are materially the same as those found in the Barclays PLC annual report, pages 208 to 224, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

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.

Barclays has a comprehensive Liquidity Risk Management Framework (the Liquidity Framework) for managing the Group's liquidity risk. The Liquidity Framework meets the PRA's standards and is designed to ensure the Group maintains liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk appetite. The Liquidity Framework is delivered via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Liquidity risk is managed separately at Barclays Africa Group Limited (BAGL) due to local currency and funding requirements. Unless stated otherwise, all disclosures in this section exclude BAGL and they are reported on a stand-alone basis. Adjusting for local requirements, BAGL liquidity risk is managed on a consistent basis to Barclays Group.

For further detail on liquidity risk governance and framework see page 340.

Liquidity risk stress testing

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.

Liquidity Risk Appetite

As part of the LRA, the Group runs three primary liquidity stress scenarios, aligned to the PRA's prescribed stresses:

- 90 day market-wide stress event;
- 30 day Barclays-specific stress event; and
- combined 30 day market-wide and Barclays-specific stress event.

Under normal market conditions, the liquidity pool is managed to be at a target of at least 100% of anticipated outflows under each of these stress scenarios. The 30 day Barclays-specific stress scenario, results in the greatest net outflows of each of the liquidity stress tests. The combined 30 day scenario assumes outflows consistent with a firm-specific stress for the first two weeks of the stress period, followed by relatively lower outflows consistent with a market-wide stress for the remainder of the stress period.

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Key LRA assumptions include:

Liquidity risk driver	Barclays specific stress
Wholesale unsecured funding	<ul style="list-style-type: none"> Zero rollover of wholesale deposits, senior unsecured debt and conduit commercial paper Prime brokerage: 100% withdrawal of excess client derivative margin and cash
Wholesale secured funding	<ul style="list-style-type: none"> Zero rollover of trades secured on less-liquid collateral Rollover of trades secured on highly-liquid collateral, subject to haircut widening
Deposit outflow	<ul style="list-style-type: none"> Substantial deposit outflows of Retail and Business Banking, Corporate Banking, Wealth and Investment Management as Barclays is seen as greater credit risk than competitors
Funding concentration	<ul style="list-style-type: none"> Additional outflows recognized against concentration of providers of wholesale secured financing Largest less-liquid secured funding counterparty refuses to roll trades
Intra-day liquidity	<ul style="list-style-type: none"> Anticipated liquidity required to support intra-day requirements at payment and settlement systems.
Intra-group	<ul style="list-style-type: none"> Anticipated liquidity required to support material subsidiaries, based on stand-alone stress tests. Excess liquidity held within certain subsidiaries not available to the wider Group.
Off-balance sheet	<ul style="list-style-type: none"> Significant drawdown on committed facilities based on facility type, counterparty type and counterparty creditworthiness Outflow of all collateral owed to counterparties but not yet called Collateral outflows contingent upon a multi-notch credit rating downgrade of Barclays Bank PLC Variation margin outflows due to market movements, taking into account the mismatch between collateralised and uncollateralised positions Increase in the firm's derivative initial margin requirement
Franchise viability	<ul style="list-style-type: none"> Liquidity required in order to meet outflows that are non-contractual in nature but necessary in order to support the firm's ongoing franchise (for example, market-making activities)
Mitigating actions	<ul style="list-style-type: none"> Monetisation of unencumbered assets that are of known liquidity value to the firm but held outside the liquidity pool (subject to haircut/valuation adjustment)

Liquidity regulation

Since June 2010, the Group has reported its liquidity position against Individual Liquidity Guidance (ILG) provided by the PRA. The PRA defines both eligible liquidity pool assets and stress outflows against reported balances.

The Group also monitors its position against anticipated Basel 3 liquidity metrics – the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of at least 6 months and has been developed to promote a sustainable maturity structure of assets and liabilities.

In January 2013, the Basel Committee on Banking Supervision published a final standard for the LCR. The European CRR requires phased compliance with LCR standard from January 2015 at minimum of 60% increasing to 100% by January 2018.

In January 2014, the BCBS published a consultation proposing revision to the NSFR standards. The minimum NSFR requirement is to be introduced in January 2018 at 100%.

The methodology for estimating the LCR and NSFR is based on an interpretation of the Basel standards published in January 2013 and January 2014 respectively and includes a number of assumptions which are subject to change prior to the implementation of the CRD IV.

Based on the revised Basel standards, as at 31 December 2013, Barclays had a surplus to both of these metrics with an estimated Basel 3 LCR of 102% (2012: 126%) and an estimated Basel 3 NSFR of 110% (2012: 112%).

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Comparing internal and regulatory liquidity stress tests

The LRA stress scenarios, the PRA ILG and Basel 3 LCR are all broadly comparable short term stress scenarios in which the adequacy of defined liquidity resources is assessed against contractual and contingent stress outflows. The PRA ILG and the Basel 3 LCR stress tests provide an independent assessment of the Group's liquidity risk profile.

Stress Test	Barclays LRA	PRA ILG	Basel 3 LCR	Basel 3 NSFR
Time Horizon	30 - 90 days	3 months	30 days	6+ months
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

As at 31 December 2013, the Group held eligible liquid assets in excess of 100% of stress requirements for each of the 30 day Barclays-specific LRA scenario and the Basel 3 LCR requirement:

Compliance with internal and regulatory stress tests

	Barclays' LRA (one month Barclays specific requirement) ^a	Estimated Basel 3 LCR (revised text January 2013)
	£bn	£bn
As at 31 December 2013		
Total eligible liquidity pool	127	130
Asset inflows	-	12
Stress outflows		
Retail and commercial deposit outflows	(47)	(60)
Wholesale funding	(33)	(23)
Net secured funding	(14)	(12)
Derivatives	(7)	(7)
Contractual credit rating downgrade exposure	(13)	(13)
Drawdowns of loan commitments	(7)	(25)
Other	(1)	-
Total stress net cash flows	(122)	(128)
Surplus	5	2
Liquidity pool as a percentage of anticipated net cash flows	104%	102%
As at 31 December 2012	129%	126%

In 2013, Barclays Group right sized its liquidity pool to reduce the large LRA and LCR surpluses to support the leverage plan and reduce the costs of surplus liquidity, whilst maintaining compliance with its internal liquidity risk appetite and external regulatory requirements.

Barclays plans to maintain its surplus to the internal and regulatory stress requirements at an efficient level. Barclays will continue to monitor the money markets closely, in particular for early indications of the tightening of available funding. In these conditions, the nature and severity of the stress scenarios are reassessed and appropriate action taken with respect to the liquidity pool. This may include further increasing the size of pool or monetising the pool to meet stress outflows.

Notes

a Of the three stress scenarios monitored as part of the LRA, the 30 day Barclays specific scenario results in the lowest ratio at 104% (2012: 129%). This compares to 127% (2012: 141%) under the 90 day market-wide scenario and 112% (2012: 145%) under the 30 day combined scenario.

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Liquidity pool

The Group liquidity pool as at 31 December 2013 was £127bn (2012: £150bn). During 2013, the month-end liquidity pool ranged from £127bn to £157bn (2012: £150bn to £173bn), and the month-end average balance was £144bn (2012: £162bn). The liquidity pool is held unencumbered and is not used to support payment or clearing requirements. Such requirements are treated as part of our regular business funding. The liquidity pool is intended to offset stress outflows and comprises the following cash and unencumbered assets. The decrease of the size of the liquidity pool during 2013 is consistent with Group plans to optimise the size of the liquidity pool, within our established liquidity risk appetite framework, while maintaining compliance with regulatory requirements. The change in the composition of the liquidity pool, from cash and deposits with central banks to government bonds, was done to reduce the overall cost of the liquidity pool.

Composition of the Group liquidity pool as at 31 December 2013

	Liquidity pool £bn	Liquidity pool of which PRA eligible ^a £bn	Liquidity pool of which Basel 3 LCR eligible ^b		2012 Liquidity pool
			Level 1 £bn	Level 2A £bn	
Cash and deposits with central banks ^c	43	42	41	-	85
Government bonds^d					
AAA rated	52	51	52	-	40
AA+ to AA- rated	9	8	8	-	5
Other government bonds	1	-	-	-	1
Total government bonds	62	59	60	-	46
Other					
Supranational bonds and multilateral development banks	3	3	3	-	4
Agencies and agency mortgage-backed securities	10	-	5	5	7
Covered bonds (rated AA- and above)	6	-	-	6	5
Other	3	-	-	-	3
Total Other	22	3	8	11	19
Total as at 31 December 2013	127	104	109	11	
Total as at 31 December 2012	150	129	136	8	

The Group liquidity pool is well diversified by major currency and the Group monitors LRA stress scenarios for major currencies.

Liquidity Pool by Currency

	USD £bn	EUR £bn	GBP £bn	Other £bn	Total £bn
Liquidity pool as at 31 December 2013	31	32	38	26	127
Liquidity pool as at 31 December 2012	26	66	25	33	150

Notes

a £104bn of the liquidity pool is PRA eligible as per BIPRU 12.7. In addition, there are £9bn of Level 2 assets available, as per PRA's announcement in August 2013 that certain assets specified by PRA as Level 2 assets can be used on a transitional basis.

b The LCR-eligible assets presented in this table represent only those assets which are also eligible for the Group liquidity pool and do not include any Level 2B assets as defined by the Basel Committee on Banking Supervision.

c Of which over 95% (2012: over 95%) was placed with the Bank of England, US Federal Reserve, European Central Bank, Bank of Japan and Swiss National Bank.

d Of which over 85% (2012: over 80%) of securities are comprised of UK, US, Japan, France, Germany, Denmark and the Netherlands.

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Funding risk - Liquidity

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Management of the Group liquidity pool

The composition of the Group liquidity pool is efficiently managed. The maintenance of the liquidity pool increases the Group's costs as the interest expense paid on the liabilities used to fund the liquidity pool is greater than the interest income received on liquidity pool assets. This cost can be reduced by investing a greater portion of the Group liquidity pool in highly liquid assets other than cash and deposits with central banks. These assets primarily comprise government bonds and their inclusion in the liquidity pool does not compromise the liquidity position of the Group.

The composition of the liquidity pool is subject to limits set by the Board, Treasury Committee and the independent credit risk and market risk functions. In addition, the investment of the liquidity pool is monitored for concentration risk by issuer, currency, asset type and country. Given the incremental returns generated by these highly liquid assets, the risk and reward profile is continuously managed.

As at 31 December 2013, the portion of the Group liquidity pool comprised of cash and deposits with central banks reduced to £43bn (2012: £85bn) as a result of a reallocation to government bonds and other highly liquid assets.

Barclays manages the liquidity pool on a centralised basis. As at 31 December 2013, 90% of the liquidity pool was located in Barclays Bank PLC (2012: 90%) and was available to meet liquidity needs across the Group. The residual liquidity pool is held predominantly within Barclays Capital Inc. (BCI). The portion of the liquidity pool outside of Barclays Bank PLC is held against entity-specific stressed outflows and regulatory requirements. To the extent the use of this portion of the liquidity pool is restricted due to regulatory requirements, it is assumed to be unavailable to the rest of the Group.

Contingent liquidity

In addition to the Group liquidity pool, Barclays has access to other unencumbered assets which provide a source of contingent liquidity. Whilst these are not relied on in the Group's LRA, a portion of these assets may be monetised in a stress to generate liquidity through use as collateral for secured funding or through outright sale.

In either a Barclays-specific or market-wide liquidity stress, liquidity available via market sources could be severely disrupted. In circumstances where market liquidity is unavailable or available only at heavily discounted prices, Barclays could generate liquidity via central bank facilities. The Group maintains a significant amount of collateral pre-positioned at central banks and available to raise funding.

For more detail on the Group's other unencumbered assets see page 113.

Funding Structure

The basis for sound liquidity risk management is a solid funding structure that reduces the probability of a liquidity stress leading to an inability to meet funding obligations as they fall due. The Group's overall funding strategy is to develop a diversified funding base (both geographically and by depositor type) and maintain access to a variety of alternative funding sources, to provide protection against unexpected fluctuations, while minimising the cost of funding.

Within this, the Group aims to align the sources and uses of funding. As such, retail and commercial customer loans and advances are largely funded by customer deposits. Other assets together with other loans and advances and unencumbered assets are funded by long term wholesale debt and equity.

Trading portfolio assets are largely funded by reverse repurchase agreements. The majority of reverse repurchase agreements are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities. The liquidity pool is predominantly funded through wholesale markets. These funding relationships are summarised below:

Assets*		Liabilities*	
£360m (2012: £362m)	Customer loans and advances	£366m (2012: £335m)	Customer deposits [§]
£127m (2012: £150m)	Group liquidity pool	£82m (2012: £102m)	<1 Year wholesale funding
£162m (2012: £163m)	Other assets	£103m (2012: £138m)	>1 Year wholesale funding
£340m (2012: £347m)	Reverse repurchase agreements and other similar secured borrowing [¶]	£102m (2012: £106m)	Equity and other liabilities
£323m (2012: £466m)	Derivative financial instruments	£340m (2012: £347m)	Repurchase agreements and other similar secured borrowing [¶]
		£319m (2012: £460m)	Derivative financial instruments

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Funding risk - Liquidity

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Deposit funding (including BAGL) (audited)

Deposit funding ^d	2013		2012	
	Loans and advances to customers £bn	Customer deposits £bn	Loan to deposit ratio %	Loan to deposit ratio %
Funding of loans and advances to customers				
As at 31 December 2013				
Retail and Business Banking	234	174		
Corporate Banking ^e	61	109		
Wealth and Investment Management	23	63		
Total funding excluding secured	318	346	92	102
Secured funding ^f	-	41		
Sub-total including secured funding	318	387	82	88
Retail and Business Banking, Corporate Banking and Wealth and Investment Management ^e	318	346	92	102
Investment Bank				
Loans and Advances to Customers	41	20		
Trading settlement balances and cash collateral	70	62		
Head Office and Other Operations	1	-		
Total	430	428	101	110

The Group loan to deposit ratio as at 31 December 2013 was 101% (2012: 110%).

Retail and Business Banking, Corporate Banking and Wealth and Investment Management activities are largely funded with customer deposits. As at 31 December 2013, the loan to deposit ratio for these businesses was 92% (2012: 102%). The excess of the Investment Bank's loans and advances over customer deposits is funded with long-term debt and equity. The Investment Bank does not rely on customer deposit funding from Retail and Business Banking, Corporate Banking and Wealth and Investment Management.

As at 31 December 2013, £122bn (2012: £112bn) of total customer deposits were insured through the UK Financial Services Compensation Scheme (FSCS) and other similar schemes. In addition to these customer deposits, there were £3bn (2012: £3bn) of other liabilities insured by governments.

Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Group's operations and liquidity needs. Barclays models the behaviour of both assets and liabilities to assess balance sheet funding gaps. The behavioural modelling approach reflects the forward-looking macroeconomic outlook and captures customer roll-over and optionality behaviour within a given asset or liability product. These behavioural maturities are used to determine funds transfer pricing interest rates at which businesses are rewarded and charged for sources and uses of funds.

Notes

a BAGL Group balances other than customer loans and advances of £34bn and customer deposits of £33bn are included in other assets and liabilities.

b Excluding cash collateral and settlement balances.

c Comprised of reverse repurchase that provide financing to customers collateralised by highly liquid securities on a short term basis or are used to settle short term inventory positions; repo financing of trading portfolio assets and matched cash collateral and settlement balances.

d Included within Retail, Corporate Banking, Wealth and Investment Management and the Investment Bank are BAGL Group related balances totalling £34bn of loans and advances to customers funded by £33bn of customer deposits (£7bn of which is BAGL Investment Bank).

e In addition Corporate Banking holds £15.7bn (2012: £17.6bn) loans and advances as financial assets held at fair value.

f Secured funding includes covered bonds, public securitisations, bilateral repos and central banks borrowings. These are not included within customer deposits.

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Behavioural Maturity Profile (including BAGL)

	Loans and advances to customers	Customer deposits	Customer funding surplus/(deficit)	Behavioural maturity profile cash outflow/(inflow)	
				Less than one year	Greater than one year
As at 31 December 2013	£bn	£bn	£bn	£bn	£bn
Retail and Business Banking	234	174	(60)	(6)	(54)
Corporate Banking	61	109	48	20	28
Wealth and Investment Management	23	63	40	6	34
Total Retail and Business Banking, Corporate Banking and Wealth and Investment Management funding excluding secured	318	346	28	20	8
As at 31 December 2012					
Retail and Business Banking	231	156	(75)	(17)	(58)
Corporate Banking	64	100	36	12	24
Wealth and Investment Management	21	54	33	7	26
Total Retail and Business Banking, Corporate Banking and Wealth and Investment Management funding excluding secured	316	310	(6)	2	(8)

The relatively low cash outflow within one year demonstrates that customer funding remains broadly matched from a behavioural perspective.

Wholesale funding

Wholesale funding relationships are summarised below:

Assets			Liabilities		
	2013	2012		2013	2012
	£bn	£bn		£bn	£bn
Trading portfolio assets and other securities	63	85	Repurchase agreements	196	217
Reverse repurchase agreements	133	132			
Reverse repurchase agreements	53	44	Trading portfolio liabilities	53	44
Derivative financial instruments	323	466	Derivative financial instruments	319	460
Liquidity pool	127	150	Less than 1 year wholesale debt	82	102
Other assets ^a	119	145	Greater than 1 year wholesale debt and equity	164	194

Trading portfolio assets are largely funded by repurchase agreements. The majority of reverse repurchase agreements (i.e. secured lending) are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities (see note 19 'offsetting financial assets and liabilities' for further detail on netting).

Derivative assets and liabilities are largely matched. A substantial proportion of balance sheet derivative positions qualify for counterparty netting and the remaining portions are largely offset once netted against cash collateral received and paid.

The liquidity pool is largely funded by wholesale debt, the majority of which matures in less than one year. Other assets are largely matched by term wholesale debt and equity.

Notes

^a Predominantly available for sale investments, trading portfolio assets, financial assets designated at fair value and loans and advances to banks funded by greater than one year wholesale debt and equity.

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Composition of wholesale funding

The Group maintains access to a variety of sources of wholesale funds in major currencies, including those available from money markets, repo markets and term investors, across a variety of distribution channels and geographies. The Group is an active participant in money markets, has direct access to US, European and Asian capital markets through its global investment banking operations and long-term investors through its clients worldwide. As a result, wholesale funding is well diversified by product, maturity, geography and major currency.

As at 31 December 2013, total wholesale funding outstanding (excluding repurchase agreements) was £186bn (2012: £240bn). £82bn (2012: £102bn) of wholesale funding matures in less than one year of which £23bn (2012: £18bn)^a relates to term funding. £104bn (2012: £138bn) of wholesale funding had a residual maturity of over one year. Maturing wholesale liabilities have been replaced with customer deposits to increase the resilience and sustainability of Barclays' funding structure.

As at 31 December 2013, outstanding wholesale funding comprised £35bn (2012: £40bn) of secured funding and £151bn (2012: £199bn) of unsecured funding.

Maturity profile of wholesale funding^b

	Not more than one month Ebn	Over one month but not more than three months Ebn	Over three months but not more than six months Ebn	Over six months but not more than nine months Ebn	Over nine months but not more than one year Ebn	Sub-total less than one year Ebn	Over one year but not more than two years Ebn	Over two years but not more than five years Ebn	More than five years Ebn	Total Ebn
Deposits from banks	9.4	5.7	0.7	1.0	0.3	17.1	4.4	0.2	-	21.7
Certificates of Deposit and Commercial Paper	2.1	10.8	6.8	5.4	2.6	27.7	0.6	0.6	0.4	29.3
Asset Backed Commercial Paper	2.7	2.1	-	-	-	4.8	-	-	-	4.8
Senior unsecured (Public benchmark)	2.5	0.8	2.6	1.6	0.1	7.6	3.9	6.0	3.9	21.4
Senior unsecured (Privately placed)	1.0	2.6	3.5	4.2	2.4	13.7	9.4	15.6	11.5	50.2
Covered bonds/ABS	0.3	0.4	0.4	3.3	0.6	5.0	6.9	6.0	7.1	25.0
Subordinated liabilities	-	0.2	-	-	-	0.2	0.1	2.9	17.6	20.8
Other ^c	2.3	1.4	1.5	0.4	0.3	5.9	1.8	2.5	2.1	12.3
Total as at 31 December 2013	20.3	24.0	15.5	15.9	6.3	82.0	27.1	33.8	42.6	185.5
Of which secured	4.6	3.7	1.4	3.5	0.7	13.9	7.3	6.5	7.2	34.9
Of which unsecured	15.7	20.3	14.1	12.4	5.6	68.1	19.8	27.3	35.4	150.6
Total as at 31 December 2012	29.4	39.4	17.5	8.2	7.2	101.7	28.3	56.2	53.5	239.7
Of which secured	5.9	4.0	2.4	0.8	0.5	13.6	5.2	13.8	7.8	40.4
Of which unsecured	23.5	35.4	15.1	7.4	6.7	88.1	23.1	42.4	45.7	199.3

Outstanding wholesale funding includes £50bn (2012: £63bn) of privately placed senior unsecured notes in issue. These notes are issued through a variety of distribution channels including intermediaries and private banks. A large proportion of end users of these products are individual retail investors.

In 2013, Barclays repaid €3bn of funding raised through the European Central Bank's 3 year LTRO, leaving €5bn (2012: €8bn) outstanding as at 31 December 2013.

The liquidity risk of wholesale funding is carefully managed primarily through the LRA stress tests, against which the liquidity pool is held. Although not a requirement, the liquidity pool exceeded wholesale funding maturing in less than one year by £45bn (2012: £48bn).

The average maturity of wholesale funding net of the liquidity pool was at least 69 months (2012: 61 months).

Notes

a Term funding maturities comprise public benchmark and privately placed senior unsecured notes, covered bonds/asset-backed securities (ABS) and subordinated debt where the original maturity of the instrument was more than 1 year. In addition, at 31 December 2013, £3bn of these instruments were not counted towards term financing as they had an original maturity of less than 1 year.

b The composition of wholesale funds comprises the balance sheet reported Deposits from Banks, Financial liabilities at Fair Value, Debt Securities in Issue and Subordinated Liabilities, excluding cash collateral and settlement balances. It does not include collateral swaps, including participation in the Bank of England's Funding for Lending Scheme. Included within deposits from banks are £4.1bn of liabilities drawn in the European Central Bank's 3 year LTRO.

c Primarily comprised of fair value deposits (£4.6bn) and secured financing of physical gold (£5.0bn).

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Funding risk - Liquidity

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Currency composition of wholesale debt

As at 31 December 2013, the proportion of wholesale funding by major currencies was as follows:

Currency composition of wholesale funds

	USD	EUR	GBP	Other
	%	%	%	%
Deposits from banks	14	55	24	7
Certificates of deposits and commercial paper	64	19	16	1
Asset backed commercial paper	87	6	7	-
Senior unsecured	30	34	16	20
Covered bonds/ABS	22	61	16	1
Subordinated liabilities	37	28	34	1
Total as at 31 December 2013	35	36	19	10
Total as at 31 December 2012	31	38	22	9

To manage cross-currency refinancing risk Barclays manages to foreign exchange cash-flow limits, which limit risk at specific maturities. Across wholesale funding, the composition is materially unchanged.

Term financing

In 2013, term funding maturities were mostly offset by cash inflows arising from growth in customer deposits and run-off of Exit Quadrant assets, while a significant portion of the Group's 2013 funding needs were pre-funded in 2012.

The Group issued £1bn of net term funding in 2013, including \$1bn of CRD IV compliant Tier 2 capital. This issuance was a transitional step towards Barclays end state CRD IV capital structure.

The Group has £24bn of term debt maturing in 2014 and a further £22bn maturing in 2015^a. The Group expect to issue more public wholesale debt in 2014 than in 2013 in order to maintain a stable and diverse funding base by type, currency and distribution channel.

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 secured 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.

As at 31 December 2013, £187bn (2012: £231bn) of the Group's assets were encumbered (excluding reverse repurchase agreements), which primarily related to firm financing of trading portfolio assets and other securities and to funding secured against loans and advances to customers. Encumbered assets have been identified via the Group's assets pledged process. For securities and commodities assets are considered encumbered if there has been legal title transfer against repurchase, stock lending and other similar secured borrowing agreements, trading portfolio liabilities or derivatives margin. Encumbered loans and advances have been identified where assets are pledged against external securitisations or covered bonds or have been used in external repurchase or other similar agreements with market counterparts or central banks. Additionally, encumbered assets include cash collateral posted. Encumbered assets do not include assets which may have been pledged for other reasons and do not include client activity.

In addition, £321bn (2012: £310bn) of the total £390bn (2012: £361bn) securities accepted as collateral, and held off-balance sheet, were unpledged, the significant majority of which related to matched-book activity where reverse repurchase agreements are matched by repurchase agreements entered into to facilitate client activity. The remainder relates primarily to reverse repurchases used to settle trading portfolio liabilities as well as collateral posted against derivatives margin requirements.

Note

^a Includes £0.3bn of bilateral secured funding in 2014 and £2bn in 2015.

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As at 31 December 2013, £222bn (2012: £237bn) of assets were identified as available as collateral. These assets are not subject to any restrictions on their ability to secure funding, be offered as collateral, or sold to reduce potential future funding requirements, but are not immediately available in the normal course of business in their current form. They primarily consist of loans and advances a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available because they are not in transferable form.

Not available collateral consist of assets that cannot be pledged or used as security for funding due to restrictions that prevent their pledge or use as security for funding in the normal course of business.

Derivatives and reverse repo assets relate specifically to reverse repurchase agreements, derivatives and other similar secured lending. These are shown separately as these on-balance sheet assets cannot be pledged. However, these assets can give rise to the receipt of non-cash assets which are not recognised on the balance sheet, but can be used to raise secured funding or meet additional funding requirements.

Asset encumbrance

On-balance sheet	Assets ^a	Encumbered assets	Unencumbered assets		Unencumbered - cannot be pledged as collateral	
		Assets pledged as collateral	Readily available assets	Available as collateral		Derivatives and Reverse Repos
	£bn	£bn	£bn	£bn	£bn	£bn
As at 31 December 2013						
Cash and balances at central banks	43.8	–	43.8	–	–	–
Trading portfolio assets	130.6	65.3	65.3	–	–	–
Financial assets at fair value	36.6	0.3	9.1	21.0	0.9	5.3
Derivative financial instruments	322.7	–	–	–	–	322.7
Loans and advances – banks ^b	16.6	–	5.6	4.0	7.0	–
Loans and advances – customers ^b	324.7	62.6	66.1	196.0	–	–
Cash collateral and settlement balances	91.3	50.6	–	–	40.7	–
Available for sale financial investments	86.8	8.4	74.6	0.5	3.3	–
Reverse repurchase agreements	186.0	–	–	–	–	186.0
Property plant and equipment	3.8	–	–	–	3.8	–
Items in the course of collection from other banks	1.0	–	–	–	1.0	–
Other assets	3.5	–	–	–	3.5	–
Current tax asset	0.2	–	–	–	0.2	–
Investment in associates and joint ventures	0.6	–	–	–	0.6	–
Goodwill and intangible assets	6.3	–	–	–	6.3	–
Deferred tax assets	4.8	–	–	–	4.8	–
Retirement benefit assets	–	–	–	–	–	–
Total on-balance sheet	1,259.3	187.2	264.5	221.5	72.1	514.0

Off-balance sheet	Collateral received	Collateral received of which on-pledge	Unencumbered assets		Unencumbered - cannot be pledged as collateral
			Readily available assets ^c	Available as collateral ^d	Not available as collateral ^e
	£bn	£bn	£bn	£bn	£bn
Fair value of securities accepted as collateral	389.8	321.1	67.2	–	1.5
Total unencumbered collateral			331.7	221.5	73.6

Notes

a The amounts included in the table are for the Group excluding BAGL. The assets relating to BAGL amount to £53bn (2012: £56.2bn), of which nil are encumbered assets (2012: £0.2bn). Securities received as collateral by BAGL of £0.7bn have also been excluded (2012: £0.6bn).

b Excluding cash collateral and settlement balances.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Asset encumbrance

On-balance sheet	Assets ^a	Encumbered assets		Unencumbered assets		Unencumbered - cannot be pledged as collateral	
		Assets pledged as collateral	Readily available assets	Available as collateral	Not available as collateral	Derivatives and Reverse Repos	
As at 31 December 2012	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	84.6	–	84.6	–	–	–	–
Trading portfolio assets	143.3	85.3	58.0	–	–	–	–
Financial assets at fair value	43.5	8.1	6.7	22.2	0.8	5.7	–
Derivative financial instruments	466.4	–	–	–	–	466.4	–
Loans and advances – banks ^b	16.0	–	6.5	2.3	7.2	–	–
Loans and advances – customers ^b	325.8	72.9	40.4	212.5	–	–	–
Cash collateral and settlement balances	85.1	52.5	–	–	32.6	–	–
Available for sale financial investments	70.3	12.3	54.0	0.4	3.6	–	–
Reverse repurchase agreements	176.2	–	–	–	–	176.2	–
Property plant and equipment	4.9	–	–	–	4.9	–	–
Items in the course of collection from other banks	1.1	–	–	–	1.1	–	–
Other assets	4.0	–	–	–	4.0	–	–
Current tax asset	0.2	–	–	–	0.2	–	–
Investment in associates and joint ventures	0.6	–	–	–	0.6	–	–
Goodwill and intangible assets	6.5	–	–	–	6.5	–	–
Deferred tax assets	3.5	–	–	–	3.5	–	–
Retirement benefit assets	0.1	–	–	–	0.1	–	–
Total on-balance sheet	1,432.1	231.1	250.2	237.4	65.1	648.3	

Off-balance sheet

	Collateral received	Collateral received of which on-pledge	Unencumbered assets		Unencumbered – cannot be pledged as collateral	
			Readily available assets ^c	Available as collateral ^d	Not available as collateral ^e	
	£bn	£bn	£bn	£bn	£bn	£bn
Fair value of securities accepted as collateral	360.5	309.5	50.1	–	0.9	–
Total unencumbered collateral			300.3	237.4	66.0	

Notes

a The amounts included in the table are for the Group excluding BAGL. The assets relating to BAGL amount to £53bn (2012: £56.2bn), of which nil are encumbered assets (2012: £0.2bn). Securities received as collateral by BAGL of £0.7bn have also been excluded (2012: £0.6bn).

b Excluding cash collateral and settlement balances.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Repurchase agreements and reverse repurchase agreements

Barclays enters into repurchase and other similar secured borrowing agreements to finance its trading portfolio assets. The majority of reverse repurchase agreements are matched by offsetting repurchase agreements entered into to facilitate client activity. The remainder are used to settle trading portfolio liabilities.

Due to the high quality of collateral provided against secured financing transactions, the liquidity risk associated with this activity is significantly lower than unsecured financing transactions. Nonetheless, Barclays manages to gross and net secured mismatch limits to limit refinancing risk under a severe stress scenario and a portion of the Group's liquidity pool is held against stress outflows on these positions. The Group secured mismatch limits are calibrated based on market capacity, liquidity characteristics of the collateral and risk appetite of the Group.

The cash value of repurchase and reverse repurchase transactions will typically differ from the market value of the collateral against which these transactions are secured by an amount referred to as a haircut (or overcollateralisation). Typical haircut levels vary depending on the quality of the collateral that underlies these transactions. For transactions secured against highly liquid collateral^a, lenders demand relatively small haircuts (typically ranging from 0-2%). For transactions secured against less liquid collateral, haircuts vary by asset class (typically ranging from 5-10% for corporate bonds and other less liquid collateral).

As at 31 December 2013, the significant majority of repurchase activity related to matched-book activity. The Group may face refinancing risk on the net maturity mismatch for matched-book activity. 76% (2012: 75%) of matched-book activity is against highly liquid collateral. Where less liquid collateral is used, net repurchase refinancing requirements are managed to longer-tenors.

Net matched-book activity^{a, b}

Negative number represents net repurchase agreement (net liability)	One month to three months		
	Less than one month	One month to three months	Over three months
	£bn	£bn	£bn
As at 31 December 2013			
Highly liquid	(8.9)	2.3	6.6
Less liquid	4.3	(0.1)	(4.2)
Total	(4.6)	2.2	2.4
As at 31 December 2012			
Highly liquid	(14.1)	6.6	7.5
Less liquid	5.7	(1.7)	(4.0)
Total	(8.4)	4.9	3.5

The residual repurchase agreement activity is the firm-financing component and reflects Barclays funding of a portion of its trading portfolio assets. The primary risk related to firm-financing activity is the inability to roll-over transactions as they mature. However, 63% (2012: 74%) of firm-financing activity was secured against highly liquid assets and the weighted average maturity of firm-financing activity secured against less liquid assets was 69 days (2012: 84 days).

Firm-financing repurchase agreements^{a, b}

	Less than one month	One month to three months	Over three months	Total
	£bn	£bn	£bn	
As at 31st December 2013				
Highly liquid	42.8	7.9	2.9	53.6
Less liquid	20.7	2.9	7.8	31.4
Total	63.5	10.8	10.7	85.0
As at 31st December 2012				
Highly liquid	66.8	6.5	2.9	76.2
Less liquid	16.0	4.3	6.0	26.3
Total	82.8	10.8	8.9	102.5

Notes

a Highly liquid assets include government bonds, agency securities and mortgage-backed securities. Less liquid assets include asset-backed securities, corporate bonds, equities and other.

b Includes collateral swaps.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Credit Ratings

In addition to monitoring and managing key metrics related to the financial strength of Barclays, we also subscribe to independent credit rating agency reviews by Standard & Poor's, Moody's, Fitch and DBRS. These ratings assess the credit worthiness of Barclays and are based on reviews of a broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting and governance.

A credit rating downgrade could result in contractual outflows to meet collateral requirements on existing contracts. Outflows related to a multiple-notch credit rating downgrade are included in the LRA stress scenarios and a portion of the liquidity pool is held against this risk. Credit ratings downgrades could also result in increased costs or reduced capacity to raise funding.

Credit Ratings				
As at 31 December 2013	Standard & Poor's	Moody's	Fitch	DBRS
Barclays Bank PLC				
Long Term	A (Stable)	A2 (Negative)	A (Stable)	AA (Low) (Stable)
Short Term	A-1	P-1	F1	R-1 (mid)
Standalone rating ^a	bbb+	C-/baa2	a	A (high)
Barclays PLC				
Long Term	A- (Stable)	A3 (Negative)	A (Stable)	n/a
Short Term	A-2	P-2	F1	n/a

During 2013, Barclays was downgraded one notch by Standard & Poor's, as the rating agency views increased risk for some large European banks operating in investment banking due to tightening regulation and uncertain market conditions. As a result Barclays Bank PLC's rating moved to A/A-1 from A+/A-1, and Barclays PLC's to A-/A-2 from A/A-1. Similarly, DBRS downgraded Barclays Bank PLC, to AA (low)/R-1 (mid) from AA/R-1 (high), mainly driven by the changing regulatory environment. The downgrades were fully reserved for in the liquidity pool and there was no significant change in deposit funding or wholesale funding. Fitch and Moody's affirmed Barclays Bank PLC and Barclays PLC ratings.

Barclays' ratings currently benefit from sovereign support assumptions made by rating agencies. Levels of sovereign supports are reflected in the difference between the standalone rating and Barclays Bank PLC's long-term rating. As regulation evolves, rating agencies have communicated their intention to remove all or part of this support over time. As a consequence, Moody's put Barclays' long-term and short-term ratings on a Negative outlook.

The table below shows contractual collateral requirements and contingent obligations following one and two notch long-term and associated short-term simultaneous downgrades across all credit rating agencies, which are fully reserved for in the liquidity pool. These numbers do not assume any management or restructuring actions that could be taken to reduce posting requirements.

Further credit rating downgrades could result in contractual outflows to meet collateral requirements on existing contracts. These outflows do not include the potential liquidity impact from loss of unsecured funding, such as from money market funds, or loss of secured funding capacity. However, unsecured and secured funding stresses are included in the LRA stress scenarios and a portion of the liquidity pool is held against these risks.

Note

^a Refers to Standard & Poor's Stand-Alone Credit Profile (SACP), Moody's Bank Financial Strength Ratio (BFSR) / Baseline Credit Assessment (BCA), Fitch Viability Rating (VR) and DBRS Intrinsic Assessment (IA)

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual credit rating downgrade exposure (cumulative cash flow)

	Cumulative cash outflow	
	One-notch downgrade	Two-notch downgrade
	£bn	£bn
As at 31 December 2013		
Securitisation derivatives	7	8
Contingent liabilities	6	6
Derivatives margining	-	1
Liquidity facilities	1	2
Total contractual funding or margin requirements	14	17
As at 31 December 2012		
Securitisation derivatives	5	7
Contingent liabilities	7	7
Derivatives margining	-	1
Liquidity facilities	1	2
Total contractual funding or margin requirements	13	17

Liquidity Management at BAGL Group (audited)

Liquidity risk is managed separately at BAGL Group due to local currency, funding and regulatory requirements.

In addition to the Group liquidity pool, as at 31 December 2013, BAGL Group held £4bn (2012: £5bn) of liquidity pool assets against BAGL-specific anticipated stressed outflows. The liquidity pool consists of South African government bonds and Treasury bills.

The BAGL loan to deposit ratio as at 31 December 2013 was 105% (2012: 113%). The improvement in the loan to deposit ratio was driven by a reduction in loans and advances as a result of exchange rate movements combined with lower demand for credit across the South African economy in general, as well as a continued focus on ensuring that high credit standards continue to be applied. BAGL has also seen an increase in the term of customer deposits over the period.

As at 31 December 2013, BAGL had £9bn of wholesale funding outstanding (2012: £12bn), of which £6bn matures in less than 12 months (2012: £6bn). Issuance of term debt during 2013 included £35m of senior unsecured debt, further extending the term and diversity of the funding base.

Contractual maturity of financial assets and liabilities (audited)

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the on demand column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have been included in other assets and other liabilities as the Group is not exposed to liquidity risk arising from them; any request for funds from creditors would be met by simultaneously liquidating or transferring the related investment.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual maturity of financial assets and liabilities (including BAGL) (audited)

As at 31 December 2013	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than nine months	Over nine months but not more than one year	Over one year but not more than two years	Over two years but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets											
Cash and balances at central banks	38,602	7,085	-	-	-	-	-	-	-	-	45,687
Items in the course of collection from other banks	894	388	-	-	-	-	-	-	-	-	1,282
Trading portfolio assets	133,089	-	-	-	-	-	-	-	-	-	133,089
Financial assets designated at fair value	1,029	12,743	654	853	415	2,270	673	1,410	1,035	16,280	37,362
Derivative financial instruments	321,750	368	163	88	32	283	480	294	545	492	324,495
Loans and advances to banks	6,558	28,098	973	538	588	295	370	109	63	661	38,253
Loans and advances to customers	30,422	92,151	7,058	7,459	8,450	30,144	27,201	45,699	60,537	121,290	430,411
Reverse repurchase agreements and other similar secured lending	21	172,401	9,119	2,335	2,583	107	-	130	-	83	186,779
Available for sale financial investments	632	2,633	3,186	2,115	5,722	9,755	14,398	14,767	24,433	14,147	91,788
Other financial assets	-	1,693	-	-	-	305	-	-	-	-	1,998
Total financial assets	532,997	317,560	21,153	13,388	17,790	43,159	43,122	62,409	86,613	152,953	1,291,144
Other assets											21,696
Total assets											1,312,840
Liabilities											
Deposits from banks	7,005	40,631	738	1,112	426	4,658	111	137	-	16	54,834
Items in the course of collection due to other banks	1,037	322	-	-	-	-	-	-	-	-	1,359
Customer accounts	293,708	102,907	8,708	5,928	6,308	3,436	1,587	2,237	1,869	1,248	427,936
Repurchase agreements and other similar secured borrowing	76	189,401	4,371	556	914	1,378	17	35	-	-	196,748
Trading portfolio liabilities	53,464	-	-	-	-	-	-	-	-	-	53,464
Financial liabilities designated at fair value	636	8,215	5,257	4,712	3,425	11,107	6,527	10,138	6,678	6,396	63,091
Derivative financial instruments	319,361	11	11	13	6	48	157	208	583	236	320,634
Debt securities in issue	72	22,233	10,553	10,812	3,486	11,786	6,705	8,350	10,657	2,039	86,693
Subordinated liabilities	-	327	20	177	-	281	6	3,225	11,135	7,078	22,249
Other financial liabilities	-	4,210	-	-	-	1,478	-	-	-	-	5,688
Total financial liabilities	675,359	368,257	29,658	23,310	14,565	34,172	15,110	24,330	30,922	17,013	1,232,696
Other liabilities											16,924
Total liabilities											1,249,620
Cumulative liquidity gap	(142,362)	(193,059)	(201,564)	(211,486)	(208,261)	(199,274)	(171,262)	(133,183)	(77,492)	58,448	63,220

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual maturity of financial assets and liabilities (including BAGL) (audited)											
As at 31 December 2012	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than nine months	Over nine months but not more than one year	Over one year but not more than two years	Over two years but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets											
Cash and balances at central banks	42,435	43,756	–	–	–	–	–	–	–	–	86,191
Items in the course of collection from other banks	1,242	231	–	–	–	–	–	–	–	–	1,473
Trading portfolio assets	146,352	–	–	–	–	–	–	–	–	–	146,352
Financial assets designated at fair value	1,268	15,951	881	635	655	2,054	2,071	1,283	1,861	18,592	45,251
Derivative financial instruments	465,357	169	49	32	24	355	643	1,349	717	461	469,156
Loans and advances to banks	5,055	32,761	236	259	708	933	152	136	172	459	40,871
Loans and advances to customers	37,503	76,112	7,971	8,399	8,844	26,789	28,141	46,338	64,445	119,364	423,906
Reverse repurchase agreements and other similar secured lending	36	164,866	8,709	1,388	1,224	66	82	117	12	22	176,522
Available for sale financial investments	357	4,338	2,770	5,230	4,725	10,805	5,263	14,145	15,189	12,311	75,133
Other financial assets	–	1,615	–	–	–	386	–	–	–	–	2,001
Total financial assets	699,605	339,799	20,616	15,943	16,180	41,388	36,352	63,368	82,396	151,209	1,466,856
Other assets											21,905
Total assets											1,488,761
Liabilities											
Deposits from banks	8,619	57,101	1,664	532	312	1,617	5,591	334	229	1,013	77,012
Items in the course of collection due to other banks	1,463	124	–	–	–	–	–	–	–	–	1,587
Customer accounts	255,836	90,490	9,810	8,086	4,572	11,148	865	1,925	1,981	787	385,500
Repurchase agreements and other similar secured borrowing	394	206,355	5,331	2,321	1,421	47	780	529	–	–	217,178
Trading portfolio liabilities	44,794	–	–	–	–	–	–	–	–	–	44,794
Financial liabilities designated at fair value	1,434	7,982	6,278	3,929	3,249	11,977	11,922	11,248	10,145	8,855	77,019
Derivative financial instruments	459,587	63	32	29	19	333	337	507	1,074	740	462,721
Debt securities in issue	1,467	38,850	10,796	4,778	4,350	16,388	13,046	14,965	12,208	2,677	119,525
Subordinated liabilities	–	877	–	–	92	363	400	1,840	12,287	8,563	24,422
Other financial liabilities	–	4,080	–	–	–	641	–	–	–	–	4,721
Total financial liabilities	773,594	405,922	33,911	19,675	14,015	42,514	32,941	31,348	37,924	22,635	1,414,479
Other liabilities											14,359
Total liabilities											1,428,838
Cumulative liquidity gap	(73,989)	(140,112)	(153,407)	(157,139)	(154,974)	(156,100)	(152,689)	(120,669)	(76,197)	52,377	59,923

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)											
At 31 December 2013	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than nine months	Over nine months but not more than one year	Over one year but not more than two years	Over two years but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Bank											
Assets											
Cash and balances at central banks	35,209	6,930	-	-	-	-	-	-	-	-	42,139
Items in the course of collection from other banks	782	210	-	-	-	-	-	-	-	-	992
Trading portfolio assets	66,212	-	-	-	-	-	-	-	-	-	66,212
Financial assets designated at fair value	430	42,794	2,343	2,692	1,629	3,256	4,396	3,218	3,464	16,399	80,621
Derivative financial instruments	335,011	367	159	80	24	252	438	283	536	416	337,566
Loans and advances to banks	5,678	26,358	2,053	3,838	2,321	3,323	2,446	3,277	133	678	50,105
Loans and advances to customers	41,863	155,090	7,340	7,442	14,858	21,840	22,177	39,477	47,689	105,268	463,044
Reverse repurchase agreements and other similar secured lending	306	171,892	6,191	2,102	1,418	168	-	130	-	83	182,290
Available for sale financial investments	13	1,439	2,028	681	5,421	9,068	13,993	13,699	22,935	12,995	82,272
Other financial assets	-	791	-	-	-	111	319	4,161	1,927	8,449	15,758
Total financial assets	485,504	405,871	20,114	16,835	25,671	38,018	43,769	64,245	76,684	144,288	1,320,999
Other assets											24,834
Total assets											1,345,833
Liabilities											
Deposits from banks	23,138	36,533	640	1,320	339	1,551	75	120	176	-	63,892
Items in the course of collection due to other banks	913	255	-	-	-	-	-	-	-	-	1,168
Customer accounts	265,661	175,321	7,555	5,948	6,835	8,885	4,883	11,623	7,233	3,376	497,320
Repurchase agreements and other similar secured borrowing	482	183,211	1,764	406	775	1,439	28	35	-	-	188,140
Trading portfolio liabilities	28,990	-	-	-	-	-	-	-	-	-	28,990
Financial liabilities designated at fair value	254	8,206	6,811	6,384	4,520	12,416	10,930	11,973	9,542	6,890	77,926
Derivative financial instruments	325,852	10	11	13	6	29	128	177	558	201	326,985
Debt securities in issue	8	11,806	8,902	8,993	2,157	7,756	5,223	7,121	9,631	1,215	62,812
Subordinated liabilities	-	-	-	-	-	145	-	2,863	11,103	6,871	20,982
Other financial liabilities	-	16,812	-	-	-	-	-	-	-	-	16,812
Total financial liabilities	645,298	432,154	25,683	23,064	14,632	32,221	21,267	33,912	38,243	18,553	1,285,027
Other liabilities											7,828
Total liabilities											1,292,855
Cumulative liquidity gap	(159,794)	(186,077)	(191,646)	(197,875)	(186,836)	(181,039)	(158,537)	(128,204)	(89,763)	35,972	52,978

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)											
At 31 December 2012	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than nine months	Over nine months but not more than one year	Over one year but not more than two years	Over two years but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets											
Cash and balances at central banks	38,529	43,467	-	-	-	-	-	-	-	-	81,996
Items in the course of collection from other banks	861	215	-	-	-	-	-	-	-	-	1,076
Trading portfolio assets	74,719	-	-	-	-	-	-	-	-	-	74,719
Financial assets designated at fair value	402	42,414	1,360	1,097	1,670	4,557	2,415	5,675	3,205	19,442	82,237
Derivative financial instruments	472,720	134	32	21	16	323	606	1,286	622	369	476,129
Loans and advances to banks	4,014	30,572	3,490	1,958	2,795	2,483	1,193	4,026	228	416	51,175
Loans and advances to customers	31,872	189,324	6,796	6,808	7,355	20,152	21,655	37,040	49,545	104,176	474,723
Reverse repurchase agreements and other similar secured lending	673 ^a	164,511	6,650	1,393	704	120	82	117	12	22	174,284
Available for sale financial investments	31	2,419	1,555	4,799	4,246	7,586	4,324	12,243	13,358	11,192	61,753
Other financial assets	-	964	-	-	-	44	185	546	229	9,237	11,205
Total financial assets	623,821	474,020	19,883	16,076	16,786	35,265	30,460	60,933	67,199	144,854	1,489,297
Other assets											23,949
Total assets											1,513,246
Liabilities											
Deposits from banks	21,316	55,570	1,616	649	305	1,627	2,086	181	355	35	83,740
Items in the course of collection due to other banks	999	232	-	-	-	-	-	-	-	-	1,231
Customer accounts	215,867	198,431	8,943	6,357	10,965	14,227	11,413	8,099	4,328	2,496	481,126
Repurchase agreements and other similar secured borrowing	657 ^a	178,267	3,404	2,197	1,267	47	780	529	-	-	187,148
Trading portfolio liabilities	30,105	-	-	-	-	-	-	-	-	-	30,105
Financial liabilities designated at fair value	1,191	8,060	7,023	4,611	4,736	15,835	12,722	16,061	11,388	9,749	91,376
Derivative financial instruments	463,468	62	11	17	10	303	294	431	985	740	466,321
Debt securities in issue	20	28,013	8,204	3,673	3,140	10,299	8,180	12,036	10,324	1,284	85,173
Subordinated liabilities	-	636	-	-	96	-	154	1,635	12,191	8,229	22,941
Other financial liabilities	-	12,578	-	-	-	99	-	-	-	-	12,677
Total financial liabilities	733,623	481,849	29,201	17,504	20,519	42,437	35,629	38,972	39,571	22,533	1,461,838
Other liabilities											6,108
Total liabilities											1,467,946
Cumulative liquidity gap	(109,802)	(117,631)	(126,949)	(128,377)	(132,110)	(139,282)	(144,451)	(122,490)	(94,862)	27,459	45,300

Note

a The 2012 on demand reverse repurchase agreements and other similar secured lending, as well as the on demand repurchase agreements and other similar secured borrowing have been revised to be on a consistent basis with 2013.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Expected maturity dates do not differ significantly from the contract dates, except for:

- Trading portfolio assets and liabilities and derivative financial instruments, which may not be held to maturity as part of the Group's trading strategies.
- Retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – both numerically and by depositor type (see Behavioural maturity profile on page 110); and
- Financial assets designated at fair value held in respect of linked liabilities, which are managed with the associated liabilities.

Contractual maturity of financial liabilities on an undiscounted basis (audited)

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values).

The balances in the below table do not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

Derivative financial instruments held for trading and trading portfolio liabilities are included in the on demand column at their fair value.

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as the Group is not exposed to liquidity risk arising from them.

Contractual maturity of financial liabilities - undiscounted (audited)

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
The Group (including BAGL)					
Deposits from banks	7,005	42,923	4,956	70	54,954
Items in the course of collection due to other banks	1,037	333	–	–	1,370
Customer accounts	293,708	124,057	8,175	5,077	431,017
Repurchase agreements and other similar secured borrowing	76	195,246	1,431	–	196,753
Trading portfolio liabilities	53,464	–	–	–	53,464
Financial liabilities designated at fair value	636	21,659	29,037	20,777	72,109
Derivative financial instruments	319,361	45	450	1,246	321,102
Debt securities in issue	72	48,333	29,192	14,813	92,410
Subordinated liabilities	–	1,468	7,082	19,671	28,221
Other financial liabilities	–	4,210	1,478	–	5,688
Total financial liabilities	675,359	438,274	81,801	61,654	1,257,088
The Bank					
Deposits from banks	23,138	38,837	1,757	227	63,959
Items in the course of collection due to other banks	913	255	–	–	1,168
Customer accounts	265,661	199,615	25,478	12,002	502,756
Repurchase agreements and other similar secured borrowing	482	186,170	1,504	–	188,156
Trading portfolio liabilities	28,990	–	–	–	28,990
Financial liabilities designated at fair value	254	26,198	36,763	25,055	88,270
Derivative financial instruments	325,852	43	353	1,036	327,284
Debt securities in issue	8	32,978	21,952	11,605	66,543
Subordinated liabilities	–	934	6,431	19,345	26,710
Other financial liabilities	–	16,812	–	–	16,812
Total financial liabilities	645,298	501,842	94,238	69,270	1,310,648

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Contractual maturity of financial liabilities - undiscounted (audited)

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
At 31 December 2012					
The Group (including BAGL)					
Deposits from banks	8,619	59,677	7,629	1,267	77,192
Items in the course of collection due to other banks	1,463	124	–	–	1,587
Customer accounts	255,836	113,220	14,492	3,624	387,172
Reverse repurchase agreements and other similar secured lending	394	215,435	1,357	–	217,186
Trading portfolio liabilities	44,794	–	–	–	44,794
Financial liabilities designated at fair value	1,434	21,480	35,886	24,301	83,101
Derivative financial instruments	459,587	144	1,193	2,079	463,003
Debt securities in issue	1,467	60,396	46,742	16,566	125,171
Subordinated liabilities	–	1,948	6,284	24,670	32,902
Other financial liabilities	–	4,080	641	–	4,721
Total financial liabilities	773,594	476,504	114,224	72,507	1,436,829
The Bank					
Deposits from banks	21,316	58,159	3,931	415	83,821
Items in the course of collection due to other banks	999	232	–	–	1,231
Customer accounts	215,867	225,220	34,511	7,735	483,333
Reverse repurchase agreements and other similar secured lending	657	185,151	1,359	–	187,167
Trading portfolio liabilities	30,105	–	–	–	30,105
Financial liabilities designated at fair value	1,191	24,478	45,471	26,898	98,038
Derivative financial instruments	463,468	101	1,044	1,992	466,605
Debt securities in issue	20	44,433	32,382	12,206	89,041
Subordinated liabilities	–	1,659	5,184	24,140	30,983
Other financial liabilities	–	12,578	99	–	12,677
Total financial liabilities	733,623	552,011	123,981	73,386	1,483,001

Maturity analysis of off-balance sheet commitments received^a

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
The Group (including BAGL)					
As at 31 December 2013					
Guarantees, letters of credit and credit insurance	10,114	181	644	155	11,094
Forward starting repurchase agreements	–	14,334	–	–	14,334
Total off balance sheet commitments received	10,114	14,515	644	155	25,428
As at 31 December 2012					
Guarantees, letters of credit and credit insurance	9,108	207	760	303	10,378
Forward starting repurchase agreements	–	22,831	–	–	22,831
Total off balance sheet commitments received	9,108	23,038	760	303	33,209

Note

a The presentation of the tables for off balance sheet commitments received and given has been enhanced in line with the Enhanced Disclosure Task Force recommendations.

Barclays Risk Review - Performance

Funding risk - Liquidity

All disclosures in this section (pages 104 to 124) are unaudited and exclude BAGL Group unless otherwise stated

Maturity analysis of off-balance sheet commitments given (including BAGL) (audited)^a

The Group	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Contingent liabilities	17,873	1,583	1,174	554	21,184
Documentary credits and other short term trade related transactions	504	188	88	–	780
Forward Starting reverse repurchase agreements	–	19,936	–	–	19,936
Standby facilities, credit lines and other commitments	247,045	3,845	3,514	451	254,855
Total off balance sheet commitments given	265,422	25,552	4,776	1,005	296,755
As at 31 December 2012					
Contingent liabilities	18,419	2,123	1,077	642	22,261
Documentary credits and other short term trade related transactions	134	732	111	50	1,027
Forward Starting reverse repurchase agreements	–	23,549	–	–	23,549
Standby facilities, credit lines and other commitments	239,881	4,459	3,045	431	247,816
Total off balance sheet commitments given	258,434	30,863	4,233	1,123	294,653

Maturity analysis of off-balance sheet commitments received^a

The Bank	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Guarantees, letters of credit and credit insurance	67,646	181	644	155	68,626
Standby facilities, credit lines and other commitments	–	11,268	–	–	11,268
Total off balance sheet commitments received	67,646	11,449	644	155	79,894
As at 31 December 2012					
Guarantees, letters of credit and credit insurance	69,437	207	760	303	70,707
Standby facilities, credit lines and other commitments	–	18,847	–	–	18,847
Total off balance sheet commitments received	69,437	19,054	760	303	89,554

Maturity analysis of off-balance sheet commitments given (audited)^a

The Bank	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Contingent liabilities	18,176	1,229	1,083	272	20,760
Documentary credits and other short term trade related transactions	393	95	82	–	570
Standby facilities, credit lines and other commitments	200,551	13,744	2,719	287	217,301
Total off balance sheet commitments given	219,120	15,068	3,884	559	238,631
As at 31 December 2012					
Contingent liabilities	18,807	1,502	972	289	21,570
Documentary credits and other short term trade related transactions	64	588	83	9	744
Standby facilities, credit lines and other commitments	183,560	20,763	2,313	193	206,829
Total off balance sheet commitments given	202,431	22,853	3,368	491	229,143

Note

a The presentation of the tables for off balance sheet commitments received and given has been enhanced in line with the Enhanced Disclosure Task Force recommendations.

Risk Review

Operational risk management

All disclosures in this section (page 125) are unaudited

The disclosures within the Barclays Bank PLC operational risk section are materially the same as those found in the Barclays PLC annual report, pages 415 to 417, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

Operational Risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events.

Operational risks are inherent in all the Group's business activities and are typical of any large enterprise. 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: CyberSecurity, External Suppliers, Financial Reporting, Fraud, Information, Legal, Payments, People, Premises and Security, Product, Regulatory, Taxation, Technology and Transaction Operations. For definitions of these key risks see page 54.

Operational risk profile

The Barclays operational risk profile in 2013 was dominated by further charges of £1,350m (2012: £1,600m) for PPI and interest rate hedging product redress of £650m (2012: £850m). In response to these and other historical issues, and following publication of the Salz review, work continues to enhance the internal control and risk management framework (see the Risk management section on page 286) with the creation of a new Board-level committee charged with

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 2013 79.2% of the Group's net reportable operational risk losses had a value of £50,000 or less (2012: 74.7%) and accounted for only 1.8% (2012: 1.3%) of the Group's total net loss impact.

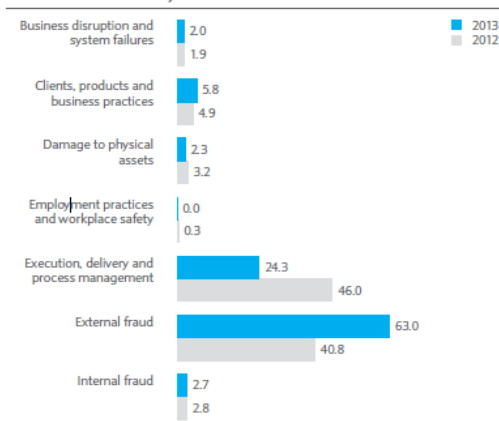
specific oversight of operational and conduct risks, reputational matters and the citizenship strategy.

The analysis below presents Barclays operational risk events by Basel 2 category. There has been a slight reduction in the proportion of losses by amount within the Clients, Products and Business Practices category to 90.0% (2012: 92.2%), but this is still heavily impacted by provisions for PPI and interest rate hedging product redress. Execution, Delivery and Process Management impacts increased to 5.2% (2012: 3.7%). 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 with 63% (2012: 41%), 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.

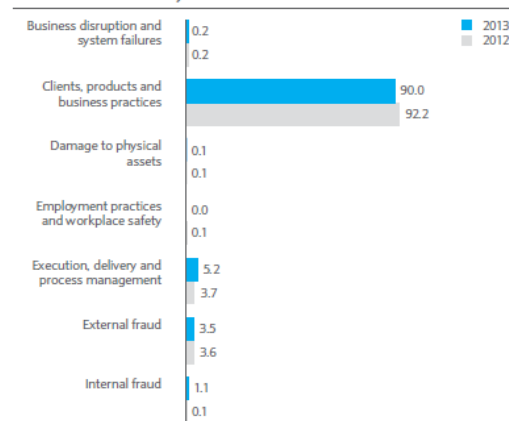
The Group's operational risk profile is informed by bottom-up risk assessments undertaken by each business unit and top-down qualitative review from the Operational Risk & Control Committee (ORCC). External Fraud and Technology have been noted by the ORCC as key operational risk exposures. External Fraud 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. CyberSecurity risk continues to be an area of attention given the increasing sophistication and scope of potential cyber-attack. Risks to technology and CyberSecurity change rapidly and require continued focus and investment.

For further information see Risk Management section (pages 286-345).

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



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



Barclays Risk Review - Performance

Reputation Risk

All disclosures in this section (pages 126 and 127) are unaudited

Reputation Risk

Reputation risk is the risk of damage to Barclays 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.

Subsequent erosion of the bank's brand reduces the attractiveness of Barclays to those stakeholders and, therefore, the ability to achieve the Group's goals and business purpose.

The cost of reputation risk could manifest itself in one, or a combination of, the following outcomes: negative publicity; loss of revenue; litigation; regulatory or legislative action; loss of existing and potential client business; reduced internal morale; and difficulties in recruiting the talent required to deliver our commitments. Ultimately, it may destroy long-term shareholder value.

Reputation risk is pervasive in nature and may arise for a wide variety of reasons, real or perceived, for example:

- Failure to act in accordance with our stated values, standards and policies;
- Association with illegal activity or governance or regulatory breaches;
- Failure of technical systems and processes;
- Association with controversial clients or sectors; and
- Association with controversial business decisions or conduct relating to products, service provision, acquisitions, and employment practices

Barclays' reputation may also be impacted negatively by the standing of the banking and financial industry generally with stakeholders. Poor practice or controversy perpetrated by other banks affects the sector as a whole.

As reputation risk arises from a real or perceived failure to comply with expected norms, which are likely to change over time, the situation is not static. Today's decisions may be judged tomorrow by different standards and this needs to be factored into our risk culture, evaluation and sanctioning procedures. Reputation risk is also pervasive, it can arise anywhere in the organisation, and management of it requires more subjective judgement than many other risks.

Barclays experienced a number of events negatively impacting its reputation in 2013, some of which arose as a result of decisions and behaviours which occurred in prior years. For example, Barclays' participation in the submission of London interbank lending rates (LIBOR) between 2005 and 2009 fell short of the high standards by which we aim to conduct business. Barclays let down its customers and clients and regrets that these actions harmed trust and confidence among our stakeholders. While the findings involved only a relatively small number of our 140,000 employees, Barclays has fully acknowledged and accepted responsibility for this past conduct. With interest rate hedging products, Barclays recognises that we have not met the standards by our regulator and customers in some cases concerning small and medium-sized enterprises.

Barclays also took the decision to exit client relationships in the Money Service Business (MSB) sector because of financial crime and regulatory risks in the sector. Although we consider that this

decision was necessary from a regulatory perspective, unfortunately it has impacted on businesses in this sector and the customers they serve.

Lessons learnt and remediation activity

Barclays has undertaken a range of initiatives to strengthen governance, drive positive cultural change through the organisation and apply a responsible and consistent "lens" to decision-making.

In 2013, reputation risk was elevated by Barclays to Principal Risk status in acknowledgement of its significance for the business. Governance of all Principal and Key Risks is being revised and strengthened as part of the Transform initiative and in 2014 will be aligned with the new Enterprise Risk Management Framework, which will ensure all risks are managed in a co-ordinated manner according to consistent parameters.

Governance around the management of reputation risk is designed to promote such a consistent approach and a risk-aware culture across our organisation globally. Every member of staff must take responsibility for managing reputation risk associated with their decisions and actions. The implementation of The Barclays Way, the bank's global code of conduct launched in October 2013, encourages Barclays' colleagues to speak up if they encounter decisions or behaviours which are not in keeping with our purpose and values, and promotes a more open culture conducive to the identification, management and reporting of reputation and other risks. Colleagues in all parts of the bank have attended values workshops and are required to attest annually to The Barclays Way, which explains how Barclays' values and desired behaviours should be put into practice at work.

Where individuals are confronted by a decision which appears to have wider reputational consequences, they are supported by a clear set of processes outlined in the Barclays Reputation Risk Framework that articulates how businesses and functions should identify and manage this risk, including how to escalate an issue. The objective is to ensure that all decision-making includes an evaluation of the reputation risk potential and that, where material risk is identified, this is managed at the right level of seniority and in a timely way.

Difficult decisions or dilemmas are referred initially to a business-level committee of senior executives familiar with the reputation risk profile and track record of their business area. If the issue is judged to be outside the scope of their authority, e.g. due to the materiality of the risk concerned or that it affects multiple business areas, then it can be escalated to the Barclays Reputation Committee. In 2013, this committee was re-designated a sub-committee of the new Conduct and Reputation Risk Committee (CRRC) chaired by Barclays' Head of Compliance and comprising Executive Committee-level representatives from Barclays businesses and functions. The CRRC reports to the Board Conduct, Reputation and Operational Risk Committee (BCRORC), which maintains Board-level oversight of non-financial Principal Risks.

The strategic review of the business in February 2013, explicitly considered reputational risk. The focus was on how we deliver returns, as well as what returns may be delivered. The analysis assessed each business against a range of criteria, including market attractiveness, competitor positioning, regulation, and reputational risk – which was assessed using the lens of Barclays' purpose and values. This review incorporated the earlier review of reputation risk associated with Corporate and Investment Banking business lines and resulted in Barclays' exit from some businesses, including the

Barclays Risk Review - Performance

Reputation Risk

All disclosures in this section (pages 126 and 127) are unaudited

Structured Capital Markets tax-related business unit. The view was that, while many tax services provided to clients are not controversial, there were some that relied on sophisticated and complex structures where transactions were carried out with the primary objective of accessing the tax benefits. Although this activity is legal, it was considered incompatible with the Group's purpose and published tax principles.

A further review of Barclays Wealth and Investment Management identified over 130 countries in which the business would no longer seek new clients. The review was designed to ensure alignment of the business to Barclays' purpose and values, reduce complexity and ensure we are well-placed to compete in a wealth management industry that has fundamentally changed.

On a more operational level, in 2013 we made the decision to drop using premium rate telephone numbers in the UK. As part of Which?'s campaign against the use of premium rate numbers, Barclays and Barclaycard committed to switching from more costly phone lines to local rate numbers, which are included in mobile phone packages and are free for customers using a landline. Barclays was the first financial services company to commit to do this.

Risk Review

Conduct risk

All disclosures in this section (pages 128 and 129) are unaudited

The disclosures within the Barclays Bank PLC conduct risk section are the same as those found in the Barclays PLC annual report.

Conduct Risk

Conduct Risk is 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.

In 2013 there were a number of conduct risk issues affecting the Group, where Barclays conduct has not met the expectations of regulators and other stakeholders and where the consequences are likely to extend into 2014 and beyond. These include participation in benchmark rates, interest rate hedging products and Payment Protection Insurance.

The lessons learnt from these events and our strategic intent to become the 'Go-To' bank has influenced our determination to put

customer needs and market integrity at the heart of our decision making and business activities.

In January 2013 Barclays inceptioned a Conduct Risk Programme to drive change in Barclays' culture and business practices to better align them with Barclays' aim to help customers achieve their ambitions in the right way. It is establishing a conduct risk framework to support the business and cultural changes required to take a more proactive and forward looking approach, building good outcomes into business models, provide risk management of conduct risks and appropriate governance and oversight.

Over the year Barclays has developed its approach to identifying, evaluating and managing conduct risk and introduced a new principal risk for conduct risk within the EMRF. This is underpinned by six underlying key risks which focus on potential detriment to customers or market integrity across Barclays' end to end operations. Development of the Key Risk Framework will continue in 2014 with implementation of the complete framework planned to be complete by the end of the year.

Principal risk framework – Defines Conduct Risk, Risk Appetite and Roles and Responsibilities

The Six Conduct Risk Key Risks:	
Business Model & Strategy Is our current and future business robust, resilient and sustainable?	Governance & Culture Is our business run in the right way?
Product Design Are the products and services we offer designed properly?	Transaction Servicing Are the right products sold in the right way?
Customer Servicing Are our new and existing customer expectations managed and met in the right way?	Financial Crime Are we effectively protecting our business, our clients and market integrity?

The Principal Risk Framework targets 10 outcomes, which are positive indicators that Barclays is putting its clients and customers and market integrity at the heart of its business.

1. Our culture places customer interests at the heart of our strategy, planning, decision making and judgements
2. Our strategy is to develop long term banking relationships with our customers by providing banking products and services that meet their needs and do not cause detriment.
3. We do not disadvantage or exploit customers, customer segments, or markets. We do not distort market competition.
4. We proactively identify conduct risks and intervene before they crystallise by managing, escalating and mitigating them promptly.
5. Our products, services and distribution channels are designed, monitored and managed to provide value, accessibility and to meet the needs of our customers.
6. We provide banking products and services that meet our customers' expectations and perform as represented. Our representations are accurate and comprehensible so our customers understand the products and services they are purchasing.
7. We address any customer detriment and dissatisfaction in a timely and fair manner.
8. We safeguard the privacy of personal data.
9. We do not conduct or facilitate market abuse.
10. We do not conduct or facilitate financial crime.

Risk Review

Conduct risk

All disclosures in this section (pages 128 and 129) are unaudited

In 2013 businesses across Barclays began Conduct Risk assessments to evaluate how their business models and strategy might impact customers and markets and generate poor outcomes and the action that should be taken to address this risk. See the business review section for more information on how individual businesses have taken the Conduct agenda forward.

Barclays has also established a new Conduct Risk Governance structure. This will provide the Board with relevant information about how conduct risks are being identified and managed, including whether controls are designed and operating effectively. For more information on the management of Conduct Risk see the Governance in Action example relating to Conduct Risk in the Governance Report.

Governance framework for conduct risk



The CRC oversees Barclays' commitment to managing Conduct Risks and working towards delivering positive outcomes. Its responsibilities include investigation, consideration of areas of potential Conduct Risk, review of Barclays-wide Conduct Key Risk Profiles and review and challenge of Conduct Risk policies and standards.

The CRRC reviews and monitors the effectiveness of Barclays' management of Conduct and Reputational risk. Its responsibilities include review, challenge and recommendation of the Conduct and Reputational risk tolerance and appetite to the BCRORC, annual review of the frameworks and associated policies, review of performance against Conduct risk appetite and escalation of conduct risks, at its discretion, to the BCRORC.

The BCRORC is a committee of the Board of Directors of Barclays PLC and has the authority to investigate matters of conduct, reputational and operational risk Barclays-wide. Its responsibilities include review and approval of the Conduct risk appetite,

governance and oversight of the management of Conduct risk, ensuring that the potential conduct and reputation impact of significant business decisions has been fully considered.

During 2014 the Conduct Risk programme will continue to develop the conduct risk framework, including the development of risk indicators and reporting and will support Barclays to make the important changes to the way it operates, such as through provision of training and guidance.

Barclays' approach to managing Conduct Risk has been developed in line with the regulatory expectations of the Financial Conduct Authority (FCA) and is subject to assessment by the FCA through its Firm Systematic Framework. Periodic discussions have been held with the FCA throughout the year.

Barclays approach to promoting good customer outcomes and market integrity is consistent with the 'Barclays Way' - the new employee code of conduct adopted in 2013.

Supervision and regulation

All disclosures in this section (pages 130 and 136) are unaudited

The disclosures within the Barclays Bank PLC supervision and regulation section are the same as those found in the Barclays PLC annual report, pages 230 to 235, found at:

<http://group.barclays.com/about-barclays/investor-relations/annual-reports>.

Supervision of the Group

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. These apply to business operations and affect financial returns and include reserve and reporting requirements and prudential and conduct of business regulations. These requirements are set by the relevant central banks and regulatory authorities that supervise the Group in the jurisdictions in which it operates. The requirements reflect global standards developed by, among others, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. They also reflect requirements of or derived from EU legislation.

Under the Financial Services Act 2012, the Bank of England has responsibility for monitoring the financial system as a whole and the system of regulation in the UK has been reorganised. Since 1 April 2013, the regulation and supervision of the Group has been divided between the Prudential Regulation Authority (PRA) – which is established as part of the Bank of England – and the Financial Conduct Authority (FCA). In addition, the Financial Policy Committee (FPC) of the Bank of England has significant influence on the prudential requirements that may be imposed on the banking system through powers of direction and recommendation. The FPC has direction powers over sectoral capital requirements which the FPC can set in relation to exposures to specific sectors judged to pose a risk to the financial system as a whole. The government has also proposed to make the FPC responsible for the Basel III countercyclical capital buffer, introduced in the EU under the Capital Requirements Directive and Regulation (CRD).

The Financial Services and Markets Act 2000 (FSMA) as amended remains the principal statute under which financial institutions are regulated in the UK. Barclays Bank PLC is authorised under FSMA to carry on a range of regulated activities within the UK and is authorised and subject to solo and consolidated prudential supervision by the PRA and subject to conduct regulation and supervision by the FCA. Firms are subject to a rolling programme of continuous, intensive and assertive engagement on prudential and conduct matters.

In its role as supervisor, the PRA seeks to maintain the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers and the financial system. The PRA's continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

The regulation and supervision of conduct matters is the responsibility of the FCA. FCA regulation of the Group is carried out through a combination of continuous assessment over rolling two-year periods; regular thematic and project work based on the FCA's sector assessments, which analyse the different areas of the market

and the risks that may lie ahead; and responding to crystallised risks, seeking to ensure remediation as appropriate.

The Banking Act 2009 (the Banking Act) provides a regime to allow the Bank of England (or, in certain circumstances, HM Treasury) to resolve failing banks in the UK, in consultation with the PRA and HM Treasury as appropriate. Under the Banking Act, these authorities are given powers, including (a) the power to make share transfer orders pursuant to which all or some of the securities issued by a UK bank may be transferred to a commercial purchaser or the UK government; and (b) the power to transfer all or some of the property, rights and liabilities of a UK bank to a commercial purchaser or Bank of England entity. A share transfer order can extend to a wide range of securities including shares and bonds issued by a UK bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such shares and bonds. From 1 April 2013, certain of these powers were extended to companies within the same group as a UK bank. The Act also gives the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers. The Banking Act powers apply regardless of any contractual restrictions and compensation may be payable in the context of both share transfer orders and property appropriation. These resolution powers were supplemented with a bail-in power through the Financial Services (Banking Reform) Act 2013. This power allows for the cancellation or modification of a liability owed by the bank, with the exception of 'excluded liabilities'. Excluded liabilities include: deposits protected under a deposit insurance scheme, secured liabilities, client assets and assets with an original maturity of less than seven days owed to a credit institution or investment firm among others.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for the Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

The Financial Services Act 2010, among other things, requires the UK regulators to make rules about remuneration and to require regulated firms to have a remuneration policy that is consistent with effective risk management. The UK regulators are mandated to make rules that require authorised firms (or a subset of authorised firms) to draw up recovery and resolution plans and to consult with HM Treasury and the Bank of England on the adequacy of firms plans. This Act also allows the FCA to make rules requiring firms to operate a collective consumer redress scheme to deal with cases of widespread failure by regulated firms to meet regulatory requirements that may have created consumer detriment.

In addition to establishing the FPC, PRA and FCA, the Financial Services Act 2012 among other things, clarifies responsibilities between HM Treasury and the Bank of England in the event of a financial crisis by giving the Chancellor of the Exchequer powers to direct the Bank of England where public funds are at risk and there is a serious threat to financial stability; it establishes the objectives and accountabilities of the new regulatory bodies; amends the Threshold Conditions for authorisation; and gives the new bodies additional powers, including powers of direction over unregulated parent undertakings (such as Barclays PLC) where this is necessary to

Supervision and regulation

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ensure effective consolidated supervision of the Group; and a power for the FCA to make temporary product intervention rules for a maximum period of six months, if necessary without consultation. The Act also gives the FCA the power to set rules in relation to the setting of benchmarks and creates a new criminal offence relating to the making of a false or misleading statement, or the creation of a false or misleading impression, in connection with the setting of a benchmark.

In addition to providing for the bail-in stabilisation powers referred to above, the Financial Services (Banking Reform Act) 2013 (the 2013 Act) gives the UK authorities powers to implement the recommendations of the Independent Commission on Banking by requiring, amongst other things: (i) the separation of the retail banking activities of UK banks in the UK and European Economic Area (EEA) in a legally distinct, operationally separate and economically independent entity (so called ring fencing); (ii) the increase of the loss-absorbing capacity of ring-fenced banks and UK headquartered global systemically important banks to levels higher than required by the CRD and (iii) preference to deposits protected under the Financial Services Compensation Scheme if a bank enters insolvency.

The 2013 Act also implements key recommendations of the Parliamentary Commission on Banking Standards, which was asked by the government to review professional standards and culture in the banking industry. Recommendations that have been so implemented include: (i) the establishment of a reserve power for the PRA to enforce full separation of UK banks under certain circumstances; (ii) the creation of a 'senior managers' regime for senior individuals in the banking and investment banking sectors to ensure better accountability for decisions made; (iii) the establishment of a criminal offence of causing a financial institution to fail; and (iv) the establishment of a regulator for payment systems.

The 2013 Act is primarily an enabling statute which provides HM Treasury with the requisite powers to implement the policy underlying the legislation through secondary legislation. The UK Government has published draft secondary legislation. The UK Government intends that both primary and secondary legislation will be in place by May 2015 and that UK banks will be required to be compliant with the structural reform requirements by 1 January 2019. Other elements of the Act will enter into force before that date.

Banks, insurance companies and other financial institutions in the UK are subject to a single compensation scheme (the Financial Services Compensation Scheme – FSCS) which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the EEA which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group's results. Further details can be found in Note 27 on pages 230 and 231.

Regulation in the UK is considerably shaped and influenced by EU directives and regulations. These provide the structure of the European Single Market, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one EU member state to conduct banking or investment business through the establishment of branches or by the provision of services on a cross-border basis in other member states without the need for local authorisation. Barclays operations in Europe are authorised and regulated by a combination of both home and host regulators.

Barclays operations in South Africa, including Barclays Africa Group Limited, are supervised and regulated by mainly the South African Reserve Bank (SARB), the Financial Services Board (FSB) as well as the Department of Trade and Industry (DTI). SARB oversees the banking industry and follows a risk-based approach to supervision, whilst the FSB oversees financial services such as insurance and investment business and focuses on enhancing consumer protection and regulating market conduct. The DTI regulates consumer credit through the National Credit Act (NCA) 2005, as well as other aspects of consumer protection not regulated under the jurisdiction of the FSB through the Consumer Protection Act (CPA) 2008. It is intended that regulatory responsibilities in South Africa will in future be divided between the SARB which will be responsible for prudential regulation and the FSB will be responsible for matters of market conduct. The precise timing for the move to 'twin peaks' regulation remains to be determined.

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US subsidiaries are subject to a comprehensive regulatory framework involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956 (BHC Act), the USA PATRIOT Act of 2001 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA). This framework regulates the activities of Barclays, including its US banking subsidiaries and the US branches of Barclays Bank PLC, as well as imposing prudential restrictions, such as limits on extensions of credit by the Barclays Bank PLC's US branches and the US banking subsidiaries to a single borrower and to affiliates. The New York and Florida branches of Barclays Bank PLC are subject to extensive federal and state supervision and regulation by the Board of Governors of the Federal Reserve System (FRB) and, as applicable, the New York State Department of Financial Services and the Florida Office of Financial Regulation. Barclays Bank Delaware, a Delaware chartered commercial bank, is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Delaware Office of the State Bank Commissioner and the Consumer Financial Protection Bureau. The deposits of Barclays Bank Delaware are insured by the FDIC. Barclays Wealth Trustees (US) NA is an uninsured non-depository trust company chartered and supervised by the Office of the Comptroller of the Currency. The licensing authority of each US branch of Barclays Bank PLC has the authority, in certain circumstances, to take possession of the business and property of Barclays Bank PLC located in the state of the office it licenses or to revoke or suspend such licence. Such circumstances generally include violations of law, unsafe business practices and insolvency.

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Barclays PLC and Barclays Bank PLC are bank holding companies registered with the FRB, which exercises umbrella supervisory authority over Barclays US operations. Barclays PLC and Barclays Bank PLC have each elected to be treated as a financial holding company under the BHC Act. Financial holding companies may generally engage in a broader range of financial and related activities than are permitted to registered bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. Financial holding companies such as Barclays PLC and Barclays Bank PLC are required to meet or exceed certain capital ratios and be deemed to be 'well managed', and Barclays Bank Delaware and Barclays Wealth Trustees (US) NA are each required to meet certain capital requirements and be deemed to be 'well managed'. In addition, Barclays Bank Delaware must have at least a 'satisfactory' rating under the Community Reinvestment Act of 1977 (CRA). Entities ceasing to meet any of these requirements, are allotted a period of time in which to restore capital levels or the management or CRA rating. Failure to meet such requirements during the allotted period of time may result in such institutions being prohibited from engaging in new types of financial activities or making certain acquisitions in the US. If the capital level or rating is not restored, the Group may ultimately be required by the FRB to cease certain activities in the United States. More generally, Barclays US activities and operations may be subject to other requirements and restrictions by the FRB under its supervisory authority, including with respect to safety and soundness,

Under the Federal Deposit Insurance Act, as amended by the DFA, Barclays is required to act as a source of financial strength for Barclays Bank Delaware. This could, among other things, require Barclays to inject capital into Barclays Bank Delaware if it fails to meet applicable regulatory capital requirements.

A major focus of US government policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. Regulations applicable to US operations of Barclays Bank PLC and its subsidiaries impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to ensure compliance with US economic sanctions against designated foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate programmes to combat money laundering

Global

The programme of reform of the global regulatory framework that was agreed by G20 Heads of Government in April 2009 has continued to be taken forward during 2013.

The FSB has been designated by the G20 as the body responsible for co-ordinating the delivery of the global reform programme. It has focused particularly on the risks posed by systemically important financial institutions. In 2011, G20 Heads of Government adopted FSB proposals to reform the regulation of globally systemically important financial institutions (G-SIFIs). A key element of this programme is that G-SIFIs should be capable of being resolved without recourse to taxpayer support. Barclays has been designated a G-SIFI by the FSB. G-SIFIs will be subject to a number of requirements, including additional loss absorption capacity above that required by Basel 3 standards (see below). The surcharges rise in increments from 1% to 2.5% of risk-weighted assets (with an empty category of 3.5% for institutions that increase the extent of

and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution.

Barclays US securities broker/dealer, investment advisory and investment banking operations are also subject to ongoing supervision and regulation by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations (SROs) as part of a comprehensive scheme of regulation of all aspects of the securities and commodities business under the US federal and state securities laws. Similarly, Barclays US commodity futures and options-related operations are subject to ongoing supervision and regulation by the Commodity Futures Trading Commission (CTFC), the National Futures Association and other SROs.

The credit card activities of the Group in the US are subject to the Credit Card Accountability, Responsibility and Disclosure Act of 2009 which prohibits certain pricing and marketing practices for consumer credit card accounts. Among the numerous provisions are those that prohibit increasing rates on existing balances and over limit fees in most instances, restrict increasing fees and rates prospectively, restrict what penalty fees can be assessed, regulate how payments are to be allocated to different balances and how the billing process is to work, and governs all communications to cardholders.

Regulatory developments

The regulatory change generated by the financial crisis is having and will continue to have a substantial impact on all financial institutions, including the Group. Regulatory change is being pursued at a number of levels, globally notably through the G20, Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), regionally through the European Union and nationally, especially in the UK and US. Further changes to prudential requirements and further refinements to the definitions of capital and liquid assets may affect the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. Similarly, increased requirements in relation to capital markets activities and to market conduct requirements may affect the Group's planned activities and could increase costs and thereby contribute to adverse impacts on the Group's earnings.

the systemic risk they pose which is intended to discourage institutions from developing their business in a way that heightens their systemic nature). This additional buffer must be met with common equity.

In its November 2013 list of G-SIFIs, the FSB placed Barclays in a category that would require it to meet a 2% surcharge. The additional loss absorbency requirements will apply to those banks identified in November 2014 as globally systemically important and will be phased in starting in January 2016, with full implementation by January 2019. G-SIFIs must also meet the higher supervisory expectations for data aggregation capabilities by January 2016. In the EU the requirements for a systemic risk buffer will be implemented through the CRD.

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The BCBS issued the final guidelines on Basel 3 capital and liquidity standards in June 2011, with revisions to counterparty credit risk in July and November 2011. It has continued to refine elements of this package through 2013, notably in relation to regulatory liquidity where revisions were agreed in January 2013 to the definitions of high quality liquid assets and net cash outflows for the purpose of calculating the Liquidity Coverage Ratio, as well as establishing a timetable for phasing-in the standard from January 2016. Amendments to the Basel 3 leverage ratio and liquidity frameworks were issued in January 2014. The requirements of Basel 3 as a whole are subject to a number of transitional provisions that run to the end of 2018. The Group is, however, primarily subject to the EU's implementation of the Basel 3 standard through the CRD (see below). An assessment of the likely impact of the Basel 3 capital, leverage and liquidity requirements as implemented by the CRD and interpreted by the PRA can be found in the analysis of funding risk in relation to capital and to liquidity (pages 99 - 103 in relation to capital and leverage and pages 104 -124 in relation to liquidity).

The BCBS also maintains a number of active work streams that will affect the Group. These include a fundamental review of the trading book where a second consultation on enhanced capital standards was issued in October 2013 and further work on large exposures. The Committee also continues to focus on the consistency of risk weighting of assets and explaining the variations between banks. A second consultation on enhanced standards was also held in relation to the securitisation framework. The results of this work are expected in 2014. In conjunction with the International Organization of Securities Commissions, the BCBS issued enhanced standards for margin requirements for non-centrally cleared derivatives in September. The BCBS also issued risk management guidelines related to anti-money laundering and terrorist financing in January 2014. These and other developments may further increase the capital required by the Group to transact affected business and/or affect the ability of the Group to undertake certain transactions.

European Union

The EU continues to develop its regulatory structure in response to the financial and Eurozone crises. At the December 2012 meeting of EU Finance Ministers it was agreed to establish a single supervisory mechanism within the Eurozone. The European Central Bank (ECB) will have responsibility for the supervision of the most significant Eurozone credit institutions, financial holding companies or mixed financial holding companies. The ECB may extend its supervision to institutions of significant relevance that have established subsidiaries in more than one participating member state and with significant cross-border assets or liabilities. Following the passage of the regulation granting the ECB responsibility for banking supervision in the Eurozone in September 2013, it is expected that the single supervisory mechanism will become operational in autumn 2014.

Notwithstanding the new responsibilities of the ECB, the European Banking Authority (EBA) which came into being on 1 January 2011, along with the other European Supervisory Authorities, remains charged with the development of a single rulebook for the EU as a whole and with enhancing co-operation between national supervisory authorities. The European Securities Markets Authority (ESMA) has a similar role in relation to the capital markets and to banks and other firms doing investment and capital markets business. The progressive reduction of national discretion on the part of national regulatory authorities within the EU may lead to the elimination of prudential arrangements that have been agreed with

those authorities. This may serve to increase or decrease the amount of capital and other resources that the Group is required to hold. The overall effect is not clear and may only become evident over a number of years. The EBA and ESMA each have the power to mediate between and override national authorities under certain circumstances. Responsibility for day to day supervision remains with national authorities and for banks, like the Group, that are incorporated in countries that will not participate in the single supervisory mechanism, is expected to remain so.

Basel 3 and (from 2016) the capital surcharge for systemic institutions have been implemented in the EU by the CRD. The CRD entered into force on 1 January 2014. Much of the implementation is expected to be done through binding technical standards being developed by the EBA, that are intended to ensure a harmonised application of rules through the EU which are still largely in the process of being developed and adopted. An assessment of the likely impact of the capital, leverage and liquidity requirements of CRD and CRR as interpreted by the PRA can be found in the analysis of funding risk in relation to capital and to liquidity (pages 99 -105 in relation to capital and leverage and pages 106- 124 in relation to liquidity).

A significant addition to the EU legislative framework for financial institutions is a directive establishing a framework for the recovery and resolution of credit institutions and investment firms. This Directive is intended to implement many of the requirements of the FSB's 'Key Attributes of Effective Resolution Regimes for Financial Institutions', and political agreement on it was reached by the European Parliament and Council in December 2013, although it has yet to complete the legislative process. The directive would give resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in may affect the rights of senior unsecured creditors subject to any bail-in in the event of a resolution of a failing bank. It also stipulates that firms would need a minimum percentage of liabilities in a form that allows them to be subject to bail-in. The proposal also requires the development of recovery and resolution plans at group and firm-level. The proposal sets out a harmonised set of resolution tools across the EU, including the power to impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts. There are also significant funding implications for financial institutions: the proposal envisages the establishment of pre-funded resolution funds of 1% of covered deposits to be built up over 10 years, although the proposal also envisages that national deposit guarantee schemes may be able to fulfil this function. The proposal is to be implemented by 1 January 2015, with the exception of the bail-in powers which must be implemented by 1 January 2016.

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A proposal to amend the Directive on Deposit Guarantee Schemes is also being considered. The draft directive envisages that national schemes should be pre-funded, with a fund to be raised over a number of years. This would be a significant change for UK banks where levies are currently raised as needed after failure. An agreement between Council and Parliament remains to be finalised, but would envisage a fund of 0.8% of covered deposits to be built up over 10 years.

In relation to both resolution funds and the funds required by the Directive on Deposit Guarantee Schemes, there may be scope for the UK to use the Bank Levy to meet pre-funding obligations, although whether this will happen and the manner in which this might operate remains unclear.

In October 2012, a group of experts set up by the European Commission to consider possible reform of the structure of the EU banking sector presented its report. Among other things, the group recommended the mandatory separation of proprietary trading and other high-risk trading activities from other banking activities. The European Commission issued proposals to implement these recommendations in January 2014. These proposals would apply to G-SIFIs and envisage, among other things: (i) a ban on proprietary trading in financial instruments and commodities; (ii) giving supervisors the power and, in certain instances, the obligation to require the transfer of other trading activities deemed to be 'high risk' to separate legal trading entities within the group; and (iii) rules on the economic, legal, governance, and operational links between the separated trading entity and the rest of the banking group. Contemporaneously, the European Commission also adopted proposals to enhance the transparency of shadow banking, especially in relation to securities financing transactions. These proposals have yet to be considered by the European Parliament and by the Council. Their impact, if they are adopted, remains to be determined.

The European Market Infrastructure Regulation (EMIR) introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. These requirements come into force progressively through 2013 and 2014. When it enters fully into force, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: report every derivative contract that they enter to a trade repository; implement new risk management standards, including operational processes and margining, for all bilateral over-the-counter derivatives trades that are not cleared by a central counterparty; and clear, through a central counterparty, over-the-counter derivatives that are subject to a mandatory clearing obligation. EMIR has potential operational and financial impacts on the group, including collateral requirements. Lower capital requirements for cleared trades are only available if the central counterparty is recognised as a 'qualifying central counterparty' which has been authorised or recognised under EMIR (in accordance with binding technical standards).

Proposals to amend the Markets in Financial Instruments Directive (known as MiFID II) were agreed in January 2014. These amendments take the form of a directive and a regulation and will affect many of the investment markets in which the Group operates and the instruments in which it trades, and how it transacts with market counterparties and other customers. Changes to the MiFID regime include the introduction of a new type of trading venue (the organised trading facility), to capture non-equity trading that falls

outside the current regime. Investor protections have been strengthened, and new curbs imposed on high frequency and commodity trading. Pre- and post-trade transparency has been increased, and a new regime for third country firms introduced. The changes also include new requirements for non-discriminatory access to trading venues, central counterparties, and benchmarks, and harmonised supervisory powers and sanctions across the EU. Implementation is not expected until late 2016 and many of the provisions of MiFID II and its accompanying regulation will be implemented by means of technical standards to be drafted by ESMA. Some of the impacts on the Group will not be clear until these technical standards have been adopted.

United Kingdom

Developments in the UK have been dominated by the Financial Services Banking Reform Act 2013. The content and the impact of this legislation are discussed above. Secondary legislation and rule-making to implement both the Act and the recommendations of the Parliamentary Commission on Banking Standards will be anticipated through 2014.

As noted above, the FPC has a significant influence on prudential requirements. During 2013, the FPC continued to recommend that the PRA should seek to ensure that UK banks hold greater levels of capital. In particular, the FPC recommended that the PRA should apply higher capital requirements to any major bank or building society with concentrated exposure to vulnerable assets, where there were valuation uncertainties or where banks were highly leveraged relating to trading activities. This resulted in the PRA on 20 June 2013 requiring two firms, including Barclays, to submit plans to increase the Core Equity Tier 1 leverage ratio to 3% by end June 2014 after adjustment for prospective credit and conduct losses. Also responding to an FPC recommendation, the Bank of England and PRA are also developing an approach to annual stress testing of the UK banking system and the individual institutions within it. The first such exercise is planned for 2014.

Both the PRA and the FCA have continued to develop and apply a more assertive approach to supervision and the application of existing standards. This may include application of standards that either anticipate or go beyond requirements established by global or EU standards, whether in relation to capital, leverage and liquidity, resolvability and resolution of matters of conduct. In December 2013, the PRA published its requirements to implement the new European capital regime, clarifying key policy issues that affect the minimum level of Common Equity Tier 1 (CET1) capital which banks need to maintain. The PRA will require banks to meet a 4% Pillar 1 CET1 requirement in 2014, rising to 4.5% from 1 January 2015. Similarly, during the same period the required Pillar 1 Tier 1 capital ratio will be 5.5%, rising to 6% from 1 January 2015 onwards. The PRA will require UK banks to bring CET1 in line with the end-point definition from 1 January 2014 rather than benefiting from transitional arrangements. Additionally, the PRA will expect eight major UK banks and building societies including Barclays, to meet a 7% CET1 capital ratio and a 3% Tier 1 leverage ratio – after taking into account adjustments to risk-weighted assets and CET1 capital deemed necessary by the PRA – from 1 January 2014, except where – as in the case for Barclays – the PRA has agreed a plan with the firm to meet the standards over a longer time frame. Barclays has agreed with the PRA that it will meet this requirement by end-June 2014 at the latest. Details of Barclays leverage calculation are set out on pages 102 to 103.

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The FCA has retained an approach to enforcement based on credible deterrence that has continued to see significant growth in the size of regulatory fines. The FCA has focused strongly on conduct risk and on customer outcomes and will continue to do so. This has included a focus on the design and operation of products, the behaviour of customers and the operation of markets. This may impact both the incidence of conduct costs and increase the cost of remediation. The Retail Distribution Review entered into force on 1 January 2013 and the Mortgage Market Review will apply from 26 April 2014. These conduct initiatives will affect the economics of investment advice and home finance provision respectively

United States

The DFA became law in July 2010. Although many of the DFA rules have been adopted and implemented, a number of rules have not yet been adopted, or have been adopted but not fully implemented. In addition, the rules that have been adopted and implemented have, for the most part, only recently become effective and their impact, in many cases, cannot yet be fully evaluated. Therefore, the full scale of the DFA's impact on the Group continues to remain unclear. In addition, market practices and structures may change in response to the requirements of the DFA in ways that are difficult to predict but that could impact Barclays business. Nonetheless, certain provisions of the DFA are particularly likely to have a significant effect on the Group, including:

- **Structural Reform:** On 18 February 2014, the FRB issued final rules implementing various enhanced prudential standards under Section 165 of the DFA applicable to certain foreign banking organisations and their US operations (i.e., branches, agencies, and subsidiaries), including Barclays.

The final rules' specific requirements depend on the amount of assets of the foreign banking organisation both inside and outside the United States. Because its total US and non-US assets exceed \$50 billion, Barclays would be subject to the most stringent requirements of the final rules, including the requirement to create a US intermediate holding company (IHC) structure to hold its US banking and non-banking subsidiaries, including Barclays Capital Inc. (the Group's US broker-dealer subsidiary). The IHC would be subject to supervision and regulation, including as to regulatory capital and stress testing as described below, by the FRB as if it were a US bank holding company of comparable size. While the operations and assets of Barclays Bank PLC's US branches would not be required to be held in the IHC, the branches would be subject to certain separate requirements.

Under the final rules, the consolidated IHC would be subject to a number of additional supervisory and prudential requirements, such as: (i) subject to certain limited exceptions, FRB regulatory capital requirements and leverage limits that are the same as those applicable to US banking organisations of comparable size; (ii) mandatory company-run and supervisory stress testing of capital levels and submission of a capital plan to the FRB; (iii) supervisory approval of and limitations on capital distributions by the IHC to Barclays Bank PLC; (iv) additional substantive liquidity requirements, including requirements to conduct monthly internal liquidity stress tests for the IHC (and also for Barclays Bank PLC's US branch network, separately), and to maintain in the US a 30-day buffer of highly liquid assets for the IHC (the branch liquidity buffer is set at 14 days); (v) other liquidity risk management

requirements, including compliance with liquidity risk management standards established by the FRB and maintenance of an independent review function to review and evaluate regularly the adequacy and effectiveness of the liquidity risk management practices of Barclays combined US operations; (vi) overall risk management requirements, including a US risk committee and a US chief risk officer; and (vii) a potential 15:1 debt-to-equity limit applicable to the IHC in the event of the occurrence of a designation by the U.S. Financial Stability Oversight Council under Section 165(j) of the DFA that the foreign banking organisation poses a grave threat to the systemic stability of the United States and the debt-to-equity limit is necessary to mitigate such risks.

The effective date of the final rule is 1 June 2014, although compliance with most of its requirements will be phased-in between 2015 and 2018. More particularly, (i) Barclays will not be required to form its IHC until 1 July 2016, (ii) the IHC will not be subject to the US generally applicable minimum leverage capital requirement (which is different than the Basel III international leverage ratio, including to the extent that the generally applicable US leverage ratio does not include off-balance sheet exposures) until 1 January 2018, and (iii) the IHC will first be required to make the aforementioned capital plan submission and be subject to the company-run and supervisory capital stress testing requirements of the final rules in January 2018.

In addition, Barclays' US IHC will also be separately subject to the supplementary US version of the Basel III international minimum leverage capital requirement starting in 2018 to the extent the IHC has over \$250 billion of total consolidated assets or \$10 billion in total non-US exposures. In light of the recent release of the final rules, Barclays continues to evaluate their implications for Barclays. Nevertheless, the Group currently believes that, in the aggregate, the final rules (and, in particular, the leverage requirements in the final rules that will ultimately become applicable to the IHC) are likely to increase the operational costs and capital requirements and/or require changes to the business mix of Barclays' US operations, which ultimately may have an adverse effect on the Group's overall result of operations.

Finally, the final rules did not implement the single counterparty credit exposure limits or the early remediation framework that were originally proposed in 2012. The FRB expects to implement such provisions at a later date.

- **Other enhanced prudential requirements:** In addition to the requirements that would be implemented under the above final rules described under 'Structured Reform', the DFA and other US laws and regulations also impose higher capital, liquidity and leverage requirements on US banks and bank holding companies generally. As discussed above, these requirements will also be generally applicable to the IHC and Barclays US operations held by it.

Supervision and regulation

All disclosures in this section (pages 130 and 136) are unaudited

- **Restrictions on proprietary trading and fund-related activities:** In December 2013, the relevant US regulatory agencies, including the FRB, the FDIC, the SEC and the CFTC, finalised the rules implementing the requirements of Section 619 of the DFA - the so-called 'Volcker Rule'. The Volcker Rule, once fully effective, will prohibit banking entities, including Barclays PLC, Barclays Bank PLC and their various subsidiaries and affiliates from undertaking certain "proprietary trading" (but will allow activities such as underwriting, market making and risk-mitigation hedging) and will limit the sponsorship of, and investment in, private equity funds (including non-conforming real estate and credit funds) and hedge funds, in each case broadly defined by such entities. These restrictions are subject to certain exceptions and exemptions, including those listed above as well as exemptions applicable to transactions and investments occurring solely outside of the United States. The rules will require Barclays to develop an extensive compliance and monitoring programme (both inside and outside of the United States), subject to various executive officer attestation requirements, addressing proprietary trading and covered fund activities, and it is therefore expected that compliance costs will increase. The final rules are highly complex and differ in certain significant respects from the rules as proposed in October 2011. As such, their full impact will not be known with certainty until market practices and structures develop under them. Subject entities are generally required to be in compliance by July 2015 (with certain provisions subject to possible extensions).
- **Resolution plans:** The DFA requires bank holding companies with total consolidated assets of \$50bn or more to submit to the FRB and the FDIC, and regularly update, a plan for 'rapid and orderly' resolution to be used if the company experiences material financial distress or failure. Non-US banking organisations that are treated as bank holding companies under US law, such as Barclays, are required to submit such plans with respect to their US operations if they have more than \$50bn in US assets. As Barclays US assets exceed \$250bn, it submitted its most recent annual resolution plan as required in October 2013.
- **Regulation of derivatives markets:** Among the changes mandated by the DFA are that many types of derivatives now (or previously) traded in the over-the counter markets be traded on an exchange or swap execution facility and centrally cleared through a regulated clearing house. In addition, many participants in these markets are required to register with the CFTC as 'swap dealers' or 'major swap participants' and/or with the US SEC as 'securities swap dealers' or 'major securities swap dealers' and be subject to CFTC and SEC regulation and oversight. It is anticipated that additional participants in the derivatives markets will be required to register in the future. Barclays Bank PLC has registered as a swap dealer. Entities required to register are subject to business conduct, recordkeeping and reporting requirements and will be subject to capital and margin requirements. The DFA also requires most standardised derivatives to be traded on a regulated platform and cleared through a regulated clearing house. In addition, the CFTC, pursuant to the DFA, has proposed rules on position limits on derivatives on physical commodities. Once adopted and implemented, these rules will limit the size of positions that can be held by an entity, or a group of entities under common ownership or control, in futures and over-the-counter derivatives, subject to certain exemptions. These rules could restrict trading activity, reducing trading opportunities and market liquidity and potentially increasing the cost of hedging transactions and the volatility of the relevant markets. It is also possible that registration, execution, clearing and compliance requirements as well as other additional regulations (certain of which still are not final), and the related expenses and requirements, will increase the cost of and restrict participation in the derivative markets, thereby increasing the costs of engaging in hedging or other transactions and reducing liquidity and the use of the derivative markets. Barclays Bank PLC and its subsidiaries and affiliates may be exposed to these effects whether or not these subsidiaries are required to register in the capacities described. The new regulation of the derivative markets could adversely affect the business of Barclays Bank PLC and its affiliates in these markets and could make it more difficult and expensive to conduct hedging and trading activities.
- **Risk retention requirements for securitisations:** The US federal banking agencies are required by the DFA to develop rules whereby, subject to certain exceptions, any sponsor of an asset-backed security (ABS) transaction must retain, generally, not less than 5% of the credit risk of any asset that the sponsor, through the issuance of ABS, transfers, sells or conveys to a third party. This may impact the participation by the Group's US operations in such transactions.
- **The Bureau of Consumer Financial Protection (CFPB):** The CFPB is empowered to regulate the credit card industry, including the terms of credit card agreements with consumers, disclosures and fees. Actions by the CFPB in this area are likely to impact the Group's US credit card business. The CFPB became operational in July 2011, and has developed a model credit card disclosure form and is accepting consumer credit card complaints. More broadly, the CFPB has the authority to examine and take enforcement action against any US bank with over \$10bn in total assets, such as Barclays Bank Delaware, with respect to its compliance with Federal laws regulating the provision of consumer financial services and with respect to 'unfair, deceptive or abusive acts and practices.' Since becoming operational, the CFPB has initiated several high-profile public actions against financial companies, including major credit card issuers. Settlements of those actions have included monetary penalties, customer remediation requirements and commitments to modify business practices.

Financial review

Key performance indicators

Financial KPIs

The financial KPIs outlined below set out the way in which the performance of Barclays Bank Group has been measured during 2013.

Financial KPIs

Definition	Why it is important to the business and performance update	Performance metric
<p>Total income Defined as total income net of insurance claims.</p> <p>Adjusted income excludes adjusting items for movements in own credit, gains on debt buy-backs, and loss/gains on acquisitions and disposals.</p>	<p>Total income is a key indicator of financial performance to many of Barclays' stakeholders and income growth is a key execution priority for Barclays' management.</p> <p>Adjusted total income decreased 4% to £28.2bn due to challenging economic conditions and the continuing low interest rate environment.</p>	<p>Adjusted 2013 - £28,174m 2012 - £29,209m</p> <p>Statutory 2013 - £27,954m 2012 - £24,857m</p>
<p>Operating expenses Defined as total operating expenses.</p> <p>Adjusted operating expenses exclude provisions for PPI and interest rate hedging products redress, and goodwill impairment.</p>	<p>Barclays views operating expenses as a key strategic battleground for banks in the next decade. Those who actively manage costs and control them effectively will gain a competitive advantage.</p> <p>Adjusted operating expenses increased 7% to £19.9bn reflecting £1.2bn of costs to achieve Transform, provisions for litigation and regulatory penalties in Q4 2013 in the Investment Bank and an increase in UK bank levy to £504m (2012: £345m).</p>	<p>Adjusted 2013 - £19,895m 2012 - £18,557m</p> <p>Statutory 2013 - £21,974m 2012 - £21,007m</p>
<p>Profit before tax Profit before tax and adjusted profit before tax are the two primary profitability measures used by management to assess performance. Profit before tax is stated in accordance with International Financial Reporting Standards and represents total income less impairment charges and operating expenses.</p> <p>Adjusted profit before tax excludes adjusting items for movements in own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment.</p>	<p>Profit before tax is a key indicator of financial performance to many of our stakeholders.</p> <p>Adjusted profit before tax is presented to provide a consistent basis for comparing business performance between periods. Adjusted profit before tax decreased by 30% to £5.2bn due to costs to achieve Transform and a 4% reduction in income. Profit before tax in the Investment Bank decreased 36% to £2.5bn.</p>	<p>Adjusted 2013 - £5,184m 2012 - £7,452m</p> <p>Statutory 2013 - £2,885m 2012 - £650m</p>

Financial review

Key performance indicators

Financial KPIs (continued)

Definition	Why it is important to the business and performance update	Performance metric
<p>Cost: income ratio</p> <p>The cost: income ratio is defined as operating expenses compared to total income net of insurance claims.</p> <p>The adjusted cost: income ratio excludes movements on own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, provisions for PPI and interest rate hedging products redress, and goodwill impairment.</p>	<p>This is a measure management uses to assess the productivity of the business operations. Restructuring the cost base is a key execution priority for management and includes a review of all categories of discretionary spending and an analysis of how the business can be run to ensure that costs increase at a slower rate than income.</p> <p>The adjusted cost to income ratio increased to 71% (2012: 64%) primarily due to reductions in income.</p>	<p>Adjusted</p> <p>2013 - 71%</p> <p>2012 - 64%</p> <p>Statutory</p> <p>2013 - 79%</p> <p>2012 - 85%</p>
<p>Loan loss rate</p> <p>The loan loss rate is quoted in basis points and represents total annualised loan impairment divided by gross loans and advances to customers and banks held at amortised cost at the balance sheet date.</p>	<p>The granting of credit is one of Barclays major sources of income and its most significant risk. The loan loss rate is an indicator of the cost of granting credit.</p> <p>The loan loss rate decreased to 64bps (2012: 70bps) reflecting an 8% reduction in impairment charge on loans and advances principally due to lower impairments in the wholesale businesses.</p>	<p>2013 - 64 bps</p> <p>2012 - 70 bps</p>
<p>CRD IV Risk Weighted Assets (RWAs)</p> <p>A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.</p>	<p>RWAs remain the primary measure to determine the effective allocation of capital across the Barclays Bank Group.</p> <p>CRD IV RWAs reduced £32bn to £436bn. The reduction during the year was primarily driven by reductions in Exit Quadrant RWAs of £39bn and reductions in trading book exposures, partially offset by methodology changes. This reduction was primarily in the Investment Bank, where Exit Quadrant RWAs reduced £37bn to £42bn. CRD III RWAs reduced £32bn to £355bn during the year.</p>	<p>2013 - £436bn</p> <p>2012 - £468bn</p>

Financial review

Income statement commentary

Profit before tax increased to £2,885m (2012: £650m). Excluding the adjusting items for movements in own credit, gain on disposal of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment, adjusted profit before tax decreased 30% to £5,184m.

Income increased 12% to £27,954m. Adjusted income excluding own credit and gain on disposal of investment in BlackRock, Inc. decreased 4% to £28,174m. The decrease reflected reductions in the Investment Bank, the Head Office and Africa RBB, partially offset by growth in Barclaycard and UK RBB.

Total net interest income was broadly stable at £11,653m, with lower net interest income in Head Office, Africa RBB and the Investment Bank offset by increases in Barclaycard, UK RBB and Corporate Banking. Customer net interest income for RBB, Barclaycard, Corporate Banking and Wealth and Investment Management increased to £10,365m (2012: £9,839m) driven by growth in customer assets, partially offset by contributions from Group structural hedging activities.

Total income in the Investment Bank decreased 9% to £10,749m driven by a decrease in FICC income of £1,141m, partially offset by increases in Equities and Prime Services of £484m, and Investment Banking of £81m. Exit Quadrant income also decreased £309m due to accelerated disposals and a £111m reversal of income relating to a litigation matter in Q413.

Credit impairment charges improved 8% to £3,071m, with a loan loss rate of 64bps (2012: 70bps). This reflected lower impairments in the wholesale businesses, mainly Corporate Banking in Europe and UK. In the RBB and Barclaycard businesses, Africa RBB arrears rates improved, particularly for South Africa home loans, however, impairment was higher in UK RBB and Barclaycard partly due to the non-recurrence of provision releases in 2012, and the Edcon acquisition in Barclaycard. Higher impairment in Europe reflected exposure to the renewable energy sector in Spain and weaker performance in European mortgages.

As a result, net operating income for the Barclays Bank Group after impairment charges increased 16% to £24,883m. Net adjusted operating income excluding movements on own credit and gain on disposal of investment in BlackRock, Inc. decreased 3% to £25,103m.

Operating expenses increased 5% to £21,974m in 2013. Adjusted operating expenses excluding £1,350m (2012: £1,600m) provision for PPI redress, £650m (2012: £850m) provision for interest rate hedging products redress and £79m (2012: £nil) of goodwill impairment, were up 7% to £19,895m, reflecting £1,209m (2012: £nil) of costs to achieve Transform, £220m provisions for litigation and regulatory penalties in Q413 in the Investment Bank, mainly relating to the US residential mortgage-related business and UK bank levy of £504m (2012: £345m).

The cost: income ratio decreased to 79% (2012: 85%). The adjusted cost: income ratio excluding movements on own credit, gains on disposal of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment increased to 71% (2012: 64%).

The tax charge for continuing operations for 2013 was £1,577m (2012: £617m) on profit before tax of £2,885m (2012: £650m), representing an effective tax rate of 54.7% (2012: 94.9%). The effective tax rate on adjusted profit before tax increased to 39.0% (2012: 29.0%), mainly due to a charge of £440m reflecting the write down of deferred tax assets in Spain. The adjusted effective tax rate excluding the write down was 30.5% (2012: 29.0%), which primarily reflected profits outside of the UK taxed at local statutory tax rates that are higher than the UK statutory tax rate of 23.25% (2012: 24.5%) and the impact of the increase in the non deductible UK bank levy to £504m (2012: £345m).

Financial review

Balance sheet commentary

Total assets

Total assets decreased £176bn to £1,313bn (2012: £1,489bn) principally reflecting lower derivative assets due to increases in forward interest rates and exposure reduction initiatives with central clearing parties and a reduction in cash and balances at central banks due to a decrease in the liquidity pool.

Cash and balances at central banks and items in course of collection from other banks decreased £41bn to £47bn as the cash contribution to the Group liquidity pool was reduced.

Trading portfolio assets decreased £13bn to £133bn due to a reduction in traded loans and a reduction in debt securities and other eligible bills driven by a decrease in fixed income rates. This decrease was partially offset by an increase in equity securities and commodities.

Financial assets designated at fair value decreased by £8bn to £39bn primarily reflecting decreases in debt securities due to the unwinding of the Luxembourg Index Linked Gilts deal. This was partially offset by an increase in equity securities.

Derivative financial assets decreased £145bn to £324bn primarily driven by a reduction in interest rate derivatives reflecting the decrease in mark-to-market valuations driven by increases in the major interest rate forward curves and balance sheet reduction initiatives.

Available for sale investments increased £17bn to £92bn primarily driven by an increase in debt securities in the liquidity pool as the mix of the pool is being adjusted from cash to eligible securities to increase returns.

Total loans and advances to banks and customers remained stable at £468bn (2012: £464bn) including increased settlement balances of £8.5bn, £4.4bn additional balances in UK RBB acquired through Barclays Direct (previously Barclays Direct, acquired during Q113), £1.8bn growth within Barclaycard across the UK and international business and a £1.8bn increase within Wealth and Investment Management. These increases were offset by a £5.7bn decrease within South Africa primarily due to the depreciation of ZAR against GBP.

Reverse repurchase agreements increased by £10bn to £187bn, driven by increased matched book trading opportunities and trading desks' funding requirements.

Total liabilities

Total liabilities decreased £180bn to £1,249bn (2012: £1,429bn).

Deposits from banks decreased by £22bn to £55bn primarily driven by a reduction in cash collateral due to lower derivative mark to market and reduced liquidity requirements.

Customer accounts increased by 11% to £428bn due to a £19.5bn increase in UK RBB deposits, a £15.2bn increase in settlements and cash collateral balances within the Investment Bank, a £9.6bn increase within Wealth and Investment Management, primarily reflected in the High Net Worth business, and a £9.1bn increase in the Corporate Bank, from UK deposit growth.

Repurchase agreements and other similar secured borrowing decreased £20bn to £197bn driven by a reduction in trading desks'

funding requirements partially offset by increased matched book trading.

Trading portfolio liabilities increased £9bn to £53bn primarily driven by increases in equity securities and debt securities.

Financial liabilities designated at fair value decreased £14bn to £65bn primarily reflecting trade maturities, buybacks/unwinding of existing notes due to favourable market conditions and reduced funding requirements.

Derivative financial liabilities decreased £142bn to £321bn in line with the decrease in derivative assets.

Debt securities in issue decreased £33bn to £87bn due to non-renewal of certificates of deposit and commercial paper primarily driven by reduced funding requirements.

Subordinated liabilities decreased by £2bn to £22bn due to redemptions in the year of subordinated notes, exchange movements and fair value hedge movements. This was partially offset by the issuance of £652m of Contingent Capital Notes (CCNs) and £48m of other subordinated fixed rate notes.

Shareholders' Equity

Total shareholders' equity increased £4bn to £63bn.

Share capital and share premium remained stable at £14.5bn. Retained earnings increased by £6bn to £45bn (2012: £39bn) with profit attributable to the equity holders of the Parent of £1.0bn (2012: loss of £0.3bn) and dividends paid to shareholders of £1.2bn (2012: £1.2bn).

Other equity instruments increased by £2.1bn due to the issuance of equity accounted AT1 securities.

The available for sale reserve decreased by £0.4bn to £0.1bn driven by net losses on the fair value of debt securities held as part of the Group liquidity pool, offset partially by gains from fair value movements on hedging instruments

The cash flow hedging reserve decreased by £1.8bn to £0.3bn (2012: £2.1bn) and was driven by a decrease in the fair value of interest rate swaps held for hedging purposes as interest rate forward curves increased.

Currency translation reserve movements of £1.2bn were largely due to the strengthening of GBP against the USD and ZAR.

Non-controlling interests decreased £0.6bn to £2.2bn (2012: £2.9bn). The decrease primarily reflects currency translation movements of £0.6bn due to the depreciation of ZAR against GBP and dividends paid of £0.3bn. These movements were offset by profit after tax of £0.3bn.

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

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Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Segmental analysis

The Group's activities have been organised under the following business groupings:

- UK RBB is a leading UK high street bank providing current account and savings products and Woolwich branded mortgages. UK RBB also provides unsecured loans and general insurance as well as banking and money transmission services to small and medium sized businesses.
- Europe RBB provides retail services in Spain, Italy, Portugal and France, as well as business lending to small and medium sized enterprises, through a variety of distribution channels.
- Africa RBB provides retail services across Africa and the Indian Ocean.
- Barclaycard is an international payments services provider for consumer and business customers including credit cards and consumer lending.
- The Investment Bank division of Barclays provides large corporate, government and institutional clients with a full spectrum of solutions to meet their strategic advisory, financing and risk management needs.
- Corporate Banking provides integrated banking solutions to large corporates, financial institutions and multinationals in the UK and internationally.
- Wealth and Investment Management focuses on private and intermediary clients worldwide, providing international and private banking, investment management, fiduciary services and brokerage.
- Head Office Functions and Other Operations comprise head office and central support functions, businesses in transition and consolidation adjustments.

In order to align aggregated businesses' results more closely to those of the Group, the following elements, previously included within the Head Office and Other Operations results have been allocated to the businesses:

- Intra-group allocation of funding costs and other income items now includes the majority of the costs of subordinated debt instruments, preference shares and allocation of liquidity costs; increased allocation of intra-group interest; and the elimination of fees to the Investment Bank for Structured Capital Markets activities.
- Head Office operating cost items, including the UK bank levy and Financial Services Compensation Scheme costs, have been allocated to businesses wherever practicable using the most appropriate driver of that cost.

The impact of the above allocations was an increase in Head Office and Other Operations profit before tax in 2012 of £1,281m (2011: £900m), offset by decreases in Investment Bank profit before tax in 2012 of £701m (2011: £573m), UK RBB of £220m (2011: £136m), Corporate Banking of £111m (2011: £24m), Africa RBB of £98m (2011: £80m), Barclaycard of £58m (2011: £35m), Europe RBB of £57m (2011: £43m), and Wealth and Investment Management of £36m (2011: £9m).

Portfolio reallocations also occurred to better reflect the management of the relevant businesses. The reallocations resulted in increases in profit before tax in 2012 in Barclaycard of £37m (2011: £52m), Corporate Banking of £28m (2011: £31m), and Investment Bank of £17m (2011: £17m), offset by decreases in Europe RBB of £52m (2011: £70m), and Africa RBB of £30m (2011: £30m).

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Analysis of results by business	UK RBB £m	Europe RBB £m	Africa RBB £m	Barclay- card £m	Investment Bank £m	Corporate Banking £m	Wealth and Investment Management £m	Head Office Functions and Other Operations £m	Total £m
As at 31 December 2013									
Total income net of insurance claims ^a	4,523	666	2,617	4,786	10,749	3,115	1,839	(341)	27,954
Credit impairment charges and other provisions	(347)	(287)	(324)	(1,264)	(220)	(510)	(121)	2	(3,071)
Operating expenses ^b	(2,812)	(813)	(1,842)	(1,975)	(7,417)	(1,641)	(1,665)	(96)	(18,261)
Provision for PPI Redress	(660)	-	-	(690)	-	-	-	-	(1,350)
Provision for Interest Rate Hedging	-	-	-	-	-	(650)	-	-	(650)
Products redress	(21)	(26)	(28)	(24)	(333)	(51)	(6)	(15)	(504)
UK Bank Levy	(175)	(403)	(26)	(49)	(262)	(114)	(158)	(22)	(1,209)
Other income/(losses) ^c	27	(133)	7	33	22	2	13	5	(24)
Profit /(loss) before tax from continuing operations	535	(996)	404	817	2,539	151	(98)	(467)	2,885
Total assets^d	152,931	45,009	33,522	38,897	863,812	113,867	37,561	27,241	1,312,840
As at 31 December 2012									
Total income net of insurance claims ^a	4,384	708	2,928	4,344	11,778	3,046	1,820	(4,151)	24,857
Credit impairment charges and other provisions	(269)	(257)	(632)	(1,049)	(204)	(885)	(38)	(6)	(3,340)
Operating expenses ^b	(2,877)	(787)	(1,960)	(1,826)	(7,425)	(1,672)	(1,505)	(160)	(18,212)
Provision for PPI Redress	(1,180)	-	-	(420)	-	-	-	-	(1,600)
Provision for Interest Rate Hedging	-	-	-	-	-	(850)	-	-	(850)
Products redress	(17)	(20)	(24)	(16)	(206)	(39)	(4)	(19)	(345)
UK Bank Levy	4	13	10	29	50	10	1	23	140
Other income/(losses) ^c	4	13	10	29	50	10	1	23	140
Profit /(loss) before tax from continuing operations	45	(343)	322	1,062	3,993	(390)	274	(4,313)	650
Total assets	134,554	46,119	42,228	38,156	1,073,660	87,841	24,480	41,723	1,488,761
Income by geographic region^e								2013	2012
								£m	£m
Continuing operations									
UK								11,480	7,309
Europe								4,019	4,457
Americas								7,034	7,554
Africa and Middle East								4,137	4,472
Asia								1,284	1,065
Total								27,954	24,857
Income from individual countries which represent more than 5% of total income^e								2013	2012
								£m	£m
Continuing operations									
UK								11,480	7,309
US								6,760	7,333
South Africa ^f								2,884	3,700 ^b

Notes

- a The impact of own credit movements on the fair value of structured note issuance is a charge of £220m (2012: charge of £4,579m; 2011: gain of £2,708m). This charge is included within the results of Head Office Functions and Other Operations, reflecting the fact that the fair value movements relate to the credit worthiness of the issuer as a whole.
- b Operating expenses includes £79m impairment of goodwill (2012: £nil, 2011: £597m) relating to Wealth & Investment Management (2012: £nil 2011:£nil), Europe RBB £nil (2012: £nil, 2011: £427m), Corporate Banking £nil (2012: £nil, 2011 £123m) and Barclaycard £nil (2012: £nil, 2011: £47m).
- c Other income/(losses) represents the share of post-tax results of associates and joint ventures, profit or (loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.
- d 2013 total assets include an allocation of liquidity pool assets previously held centrally.
- e Total income net of insurance claims based on counterparty location.
- f 2012 income derived from South Africa has been revised following a review of the 2012 method of allocation. £511m of 2012 income has now been allocated from South Africa to other African countries,

£4,523m
total income net of insurance claims

£1,195m
adjusted profit before tax

Retail and Business Banking

UK Retail and Business Banking

Income increased 3% to £4,523m driven by strong mortgage growth and contribution from Barclays Direct (previously ING Direct UK, acquired during Q113).

Net interest income increased 6% to £3,395m. Net interest margin was down 6bps to 129bps primarily reflecting reduced contributions from structural hedges, however, customer generated margin increased from 102bps to 106bps. Customer asset margin increased 15bps to 122bps driven by lower funding costs and increased customer rates on new mortgage lending. Customer liability margin decreased 8bps to 89bps reflecting lower funding rates.

Net fee and commission income declined 5% to £1,098m due primarily to lower fees from customers.

Credit impairment charges increased £78m to £347m primarily due to the non-recurrence of provision releases in 2012 relating to unsecured lending and mortgages. Excluding this, impairment was broadly in line with prior year.

Adjusted operating expenses increased 4% to £3,008m due to costs to achieve Transform of £175m. Statutory operating expenses decreased by 10% to £3,668m due to the lower charge for PPI redress of £660m (2012: £1,180m).

Adjusted profit before tax decreased 2% to £1,195m, while statutory profit before tax was £535m (2012: £45m).

Loans and advances to customers increased 7% to £136.5bn due to Barclays Direct, which added £4.4bn, and other mortgage growth. Mortgage balances increased to £122.8bn (2012: £114.7bn), giving an increase in share of UK stock balance to 9.9% (2012: 9.4%). Gross new mortgage lending was £17.1bn (2012: £18.2bn) and mortgage repayments were £14.4bn (2012: £10.6bn). Portfolio quality continued to improve with an average balance weighted Loan to Value (LTV) ratio on the mortgage portfolio (including buy-to-let) of 56% (2012: 59%). Average balance weighted LTV of new mortgage lending was 64% (2012: 65%).

Customer deposits increased 17% to £135.5bn driven by growth in savings and Barclays Direct, which added £6.2bn.

Total assets increased 14% to £152.9bn driven by the allocation of liquidity pool assets previously held centrally, and growth in loans and advances to customers.

CRD III RWAs increased 13% to £44.1bn primarily driven by Barclays Direct and mortgage asset growth.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	3,395	3,190
Net fee and commission income	1,098	1,154
Net premiums from insurance contracts	46	74
Other income/(expense)	1	(1)
Total income	4,540	4,417
Net claims and benefits incurred under insurance contracts	(17)	(33)
Total income net of insurance claims	4,523	4,384
Credit impairment charges and other provisions	(347)	(269)
Net operating income	4,176	4,115
Operating expenses (excluding UK bank levy, provision for PPI redress and costs to achieve Transform)	(2,812)	(2,877)
UK bank levy	(21)	(17)
Provision for PPI redress	(660)	(1,180)
Costs to achieve Transform	(175)	-
Operating expenses	(3,668)	(4,074)
Other net income	27	4
Profit before tax	535	45
Adjusted profit before tax^a	1,195	1,225
Balance Sheet Information		
Loans and advances to customers at amortised cost	£136.5bn	£128.1bn
Customer deposits	£135.5bn	£116.0bn
Total assets ^b	£152.9bn	£134.6bn
Risk weighted assets – CRD III ^b	£44.1bn	£39.1bn
Risk weighted assets – CRD IV fully loaded ^b	£44.1bn	

Notes

a Adjusted profit before tax excludes the impact of the provision for PPI redress of £660m (2012: £1,180m).

b 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£4,523m
total income net of insurance claims

£1,195m
adjusted profit before tax

	Adjusted ^a 2013	2012	Statutory 2013	2012
Performance Measures				
Loan loss rate (bps)	25	21	25	21
Cost: income ratio	67%	66%	81%	93%
Key Facts				
90 day arrears rates - Personal loans			1.2%	1.3%
90 day arrears rates - Home loans			0.3%	0.3%
Average LTV of mortgage portfolio ^b			56%	59%
Average LTV of new mortgage lending ^b			64%	65%
Number of customers			16.7m	15.8m
Number of branches			1,560	1,593
Number of employees (full time equivalent)			32,900	33,000

Notes

a Adjusted performance measures excludes the impact of the provision for PPI redress of £660m (2012: £1,180m).

b Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis. The comparative figure was restated following a detailed review of the LTVs post migration to a new data management system.

£666m
total income net of insurance claims

£996m
loss before tax

Retail and Business Banking

Europe Retail and Business Banking

Income declined 6% to £666m, reflecting actions taken to reduce assets, particularly in Spain and Italy, to address the continuing economic challenges across Europe, partially offset by an increase due to foreign currency movements.

Net interest income declined 2% to £420m due to the decline in average customer balances. Net interest margin remained broadly in line at 79bps (2012: 78bps) with improved pricing offset by higher funding costs.

Net fee and commission income declined 25% to £187m, reflecting reduced business volumes.

Net premiums from insurance contracts declined 17% to £276m due to reduced business volumes, following rationalisation of product offerings, leading to a corresponding 14% decline in net claims and benefits to £308m.

Credit impairment charges increased 12% to £287m due to exposure to the renewable energy sector in Spain, foreign currency movements and increased coverage for high risk mortgage customers. This was offset in part by improvement in collections performance.

Operating expenses increased by £435m to £1,242m, almost entirely reflecting costs to achieve Transform of £403m. These related to restructuring costs to significantly downsize the distribution network, with the remaining increase driven by foreign currency movements partially offset by cost savings resulting from restructuring.

Other net expense increased by £146m to £133m due to a valuation adjustment relating to contractual obligations to trading partners based in locations affected by our restructuring plans.

Loss before tax increased £653m to £996m, including costs to achieve Transform of £403m and an increase in other net expenses. Attributable loss increased to £964m (2012: £277m), including the impact of a deferred tax assets write down relating to Spain and the increase in loss before tax.

Loans and advances to customers fell by 6% to £37.0bn, driven by asset reduction activity as part of the Transform strategy, partially offset by foreign currency movements. Mortgage balances decreased to £33.6bn (2012: £34.8bn). The average balance weighted LTV ratio on the Spain mortgage portfolio was 63% (2012: 65%), on the Italy mortgage portfolio was 60% (2012: 60%) and the Portugal mortgage portfolio was 76% (2012: 78%).

Customer deposits reduced by 7% to £16.3bn with customer attrition partially offset by foreign currency movements.

Total assets reduced by 2% to £45.0bn driven by the reduction in loans and advances to customers.

CRD III RWAs remained broadly flat at £15.9bn (2012: £15.8bn), with a reduction in Exit Quadrant RWAs offset by changes due to the treatment of forbearance.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	420	428
Net fee and commission income	187	248
Net investment income	78	52
Net premiums from insurance contracts	276	331
Other income	13	8
Total income	974	1,067
Net claims and benefits incurred under insurance contracts	(308)	(359)
Total income net of insurance claims	666	708
Credit impairment charges and other provisions	(287)	(257)
Net operating income	379	451
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(813)	(787)
UK bank levy	(26)	(20)
Costs to achieve Transform	(403)	-
Operating expenses	(1,242)	(807)
Other net (expense)/income	(133)	13
Loss before tax	(996)	(343)
Balance Sheet Information		
Loans and advances to customers at amortised cost	£37.0bn	£39.2bn
Customer deposits	£16.3bn	£17.6bn
Total assets ^a	£45.0bn	£46.1bn
Risk weighted assets – CRD III ^a	£15.9bn	£15.8bn
Risk weighted assets – CRD IV fully loaded ^a	£16.2bn	

Note

a 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£666m

total income net of insurance claims

£996m

loss before tax

	Adjusted 2013	2012	Statutory 2013	2012
Performance Measures				
Loan loss rate (bps)	75	64	75	64
Cost: income ratio	186%	114%	186%	114%
Key Facts				
90 day arrears rate - Home loans			0.8%	0.8%
Average LTV of mortgage portfolio – Spain ^a			63%	65%
Average LTV of mortgage portfolio – Italy ^a			60%	60%
Average LTV of mortgage portfolio – Portugal ^a			76%	78%
Number of customers			1.8m	2.0m
Number of branches			572	923
Number of sales centres			61	219
Number of distribution points			633	1,142
Number of employees (full time equivalent)			5,900	7,500
EUR/£ - Period end			1.20	1.23
EUR/£ - Average			1.18	1.23

Note

^a Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis.

£2,617m
total income net of insurance claims

£404m
profit before tax

Retail and Business Banking

Africa Retail and Business Banking

Income declined 11% to £2,617m driven by foreign currency movements, partially offset by the non-recurrence of fair value adjustments in the commercial property finance portfolio in the prior year. On a constant currency basis, income improved 5%, despite continued pressure on transaction volumes in a competitive environment.

Net interest income declined 13% to £1,437m. On a constant currency basis, net interest income improved 2%. Net interest margin was down 3bps to 316bps. Customer asset margin remained stable at 310bps, with continued focus on competitive pricing of key products including home loans, personal loans and vehicle and asset finance. Customer liability margin decreased 2bps to 273bps driven by increased competition and a change in product mix towards lower margin savings products.

Net fee and commission income declined 13% to £924m. On a constant currency basis, income increased 2%.

Credit impairment charges decreased 49% to £324m. On a constant currency basis, credit impairment charges decreased 41% due to lower provisions on the South African home loans recovery book and business banking portfolio. This decrease was partly offset by deterioration in the South African unsecured lending portfolio due to the challenging economic environment. This fall in impairment resulted in a loan loss rate of 128bps (2012: 202bps).

Operating expenses decreased 4% to £1,896m. On a constant currency basis, costs increased 11% driven by a combination of increased investment spend on infrastructure and inflation increases in South Africa.

Profit before tax increased 25% to £404m, primarily due to lower credit impairment charges in the South African home loans recovery book and business banking portfolio, along with the non-recurrence of fair value adjustments on the commercial property finance portfolio in the prior year.

Loans and advances to customers decreased 19% to £24.2bn as foreign currency movements offset growth of 2%, particularly in vehicle and asset finance. The average balance weighted LTV ratio on the mortgage portfolio was 62% (2012: 66%). The average balance weighted LTV of new mortgage lending was 75% (2012: 76%).

Customer deposits decreased 13% to £16.9bn. Excluding foreign currency movements, deposits increased 8% reflecting growth in individual deposits, particularly in investment products.

Total assets decreased 21% to £33.5bn mainly due to foreign currency movements. On a constant currency basis, total assets were broadly in line.

CRD III RWAs decreased 9% to £22.4bn, primarily due to foreign currency movements, partially offset by balance sheet growth.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	1,437	1,654
Net fee and commission income	924	1,065
Net premiums from insurance contracts	359	417
Other income/(expense)	81	(1)
Total income	2,801	3,135
Net claims and benefits incurred under insurance contracts	(184)	(207)
Total income net of insurance claims	2,617	2,928
Credit impairment charges and other provisions	(324)	(632)
Net operating income	2,293	2,296
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(1,842)	(1,960)
UK bank levy	(28)	(24)
Costs to achieve Transform	(26)	-
Operating expenses	(1,896)	(1,984)
Other net income	7	10
Profit before tax	404	322
Balance Sheet Information		
Loans and advances to customers at amortised cost	£24.2bn	£29.9bn
Customer deposits	£16.9bn	£19.5bn
Total assets ^a	£33.5bn	£42.2bn
Risk weighted assets – CRD III ^a	£22.4bn	£24.5bn
Risk weighted assets – CRD IV fully loaded ^a	£22.8bn	

Note

a 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£2,617m
total income net of insurance claims

£404m
profit before tax

	Adjusted 2013	2012	Statutory 2013	2012
Performance Measures				
Loan loss rate (bps)	128	202	128	202
Cost: income ratio	72%	68%	72%	68%
Key Facts				
90 day arrears rate - Home loans			0.7%	1.6%
90 day arrears rate - unsecured lending			2.6%	3.1%
Average LTV of mortgage portfolio ^a			62%	66%
Average LTV of new mortgage lending ^a			75%	76%
Number of customers			12.1m	13.5m
Number of branches			1,268	1,339
Number of sales centres			128	112
Number of distribution points			1,396	1,451
Number of employees (full time equivalent)			41,300	40,500
ZAR/£ - Period end			17.37	13.74
ZAR/£ - Average			15.10	13.03

Notes

a Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis.

£4,786m
total income net of insurance claims

£1,507m
adjusted profit before tax

Barclaycard

Income improved 10% to £4,786m reflecting continued net lending growth and contributions from 2012 portfolio acquisitions. UK income increased 6% to £2,747m reflecting net lending growth and lower funding costs. International income improved 17% to £2,039m reflecting contributions from 2012 portfolio acquisitions and higher customer asset balances in the US and Germany.

Net interest income increased 10% to £3,318m driven by volume growth and a lower impact from structural hedges. Customer asset margin remained broadly stable at 9.39% with average customer assets increasing 8% to £36.3bn due to 2012 portfolio acquisitions and business growth. Customer liability margin was negative 0.29% reflecting deposit funding initiatives in the US and Germany.

Net fee and commission income improved 11% to £1,435m due to increased payment volumes, predominantly in the US and UK.

Credit impairment charges increased 20% to £1,264m primarily driven by the impact of portfolio acquisitions, and non-recurrence of provision releases in 2012. Impairment loan loss rates on consumer credit cards remained broadly stable at 366bps (2012: 359bps) in the UK, remained flat at 268bps in the US, and increased by 421bps to 581bps in South Africa due to the Edcon acquisition driving a change in product mix. 30 day arrears rates for consumer cards in the UK were down 10bps to 2.4%, in the US were down 30bps to 2.1% and in South Africa were up 70bps to 8.1%.

Adjusted operating expenses increased 11% to £2,048m reflecting increased costs from 2012 portfolio acquisitions, net lending growth, higher operating losses and costs to achieve Transform. Statutory operating expenses increased 21% to £2,738m due to the increased charge for PPI redress of £690m (2012: £420m).

Adjusted profit before tax improved 2% to £1,507m driven by the US and UK card portfolios, while statutory profit before tax decreased to £817m (2012: £1,062m) due to the increased charge for PPI redress.

Total assets increased 2% to £38.9bn primarily driven by the increase in loans and advances to customers across the UK and international businesses.

Customer deposits increased by £2.4bn to £5.2bn due to funding initiatives in the US and Germany.

CRD III RWAs increased 9% to £41.1bn primarily driven by asset growth and model changes in order to meet changes in regulatory guidance.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	3,318	3,009
Net fee and commission income	1,435	1,292
Net premiums from insurance contracts	26	36
Other income	7	7
Total income net of insurance claims	4,786	4,344
Credit impairment charges and other provisions	(1,264)	(1,049)
Net operating income	3,522	3,295
Operating expenses (excluding UK bank levy, provision for PPI redress and costs to achieve Transform)	(1,975)	(1,826)
UK bank levy	(24)	(16)
Provision for PPI redress	(690)	(420)
Costs to achieve Transform	(49)	-
Operating expenses	(2,738)	(2,262)
Other net income	33	29
Profit before tax	817	1,062
Adjusted profit before tax^a	1,507	1,482
Balance Sheet Information		
Loans and advances to customers at amortised cost	£35.6bn	£33.8bn
Customer deposits	£5.2bn	£2.8bn
Total assets ^b	£38.9bn	£38.2bn
Risk weighted assets – CRD III ^b	£41.1bn	£37.8bn
Risk weighted assets – CRD IV fully loaded ^b	£40.5bn	

Notes

a Adjusted profit before tax excludes the impact of the provision for PPI redress of £690m (2012: £420m).

b 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£4,786m
total income net of insurance claims

£1,507m
adjusted profit before tax

	Adjusted ^a 2013	2012	Statutory 2013	2012
Performance Measures				
Loan loss rate (bps)	337	294	337	294
Cost: income ratio	43%	42%	57%	52%
Key Facts				
30 day arrears rates - UK cards			2.4%	2.5%
30 day arrears rates - US cards			2.1%	2.4%
30 day arrears rates - South Africa cards ^b			8.1%	7.4%
Total number of Barclaycard customers			35.5m	32.8m
Total number of Barclaycard clients			350,200	315,500
Value of payments processed			£254bn	£235bn
Number of employees (full time equivalent)			12,100	11,100

Notes

a Adjusted performance measures exclude the impact of the provision for PPI redress of £690m (2012: £420m).

b 2012 30 day arrears rates on South Africa cards restated to reflect the Edcon portfolio acquisition.

£10,749m
total income

£2,539m
profit before tax

Investment Bank

Total income decreased 9% to £10,749m, including a reduction of £309m relating to the Exit Quadrant.

Fixed Income, Currency and Commodities (FICC) income decreased 17% to £5,537m. Macro Products and Credit Products income decreased 23% to £3,110m and 9% to £2,427m respectively, driven by Rates and Securitised Products, as market uncertainty around central banks' tapering of quantitative easing programmes impacted activity. Europe and the US were particularly impacted, whilst Asia benefitted from improved currency income. The prior year benefitted from the European Long Term Refinancing Operation (LTRO) in H112, the ECB bond buying programme and reduced benchmark interest rates in H212.

Equities and Prime Services income increased 22% to £2,667m reflecting higher commission income and increased client volumes.

Investment Banking income increased 4% to £2,221m driven by increased equity underwriting fees, partly offset by declines in financial advisory activity.

Principal Investments income declined to £62m (2012: £206m) due to disposals and lower private equity income.

Exit Quadrant income reduced £309m to £262m due to accelerated disposals throughout 2013 and the prior year benefitting from higher gains on US residential mortgage assets and sale of, and gains on, US commercial real estate assets. 2013 included a gain of £259m as a result of greater certainty regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition and current year reversal of £111m income relating to a litigation matter.

Net credit impairment charges of £220m (2012: £204m) were driven by a charge against a single name exposure in Q213.

Operating expenses increased 5% to £8,012m, driven by costs to achieve Transform of £262m primarily related to restructuring initiatives across Europe, Asia and America, and UK bank levy which increased 62% to £333m primarily due to an increase in the rate. Other costs included £325m (2012: £221m) relating to infrastructure improvement, including increased costs to meet the requirement of the Dodd-Frank Act, CRD IV and other regulatory reporting change projects. There were provisions for litigation and regulatory penalties of £220m in Q413, mainly relating to US residential mortgage-related business. 2012 was impacted by a £193m penalty relating to the setting of inter-bank offered rates.

Including costs to achieve Transform, the cost to income ratio increased 10% to 75%. The compensation to income ratio increased to 43.1% (2012: 39.6%), with compensation costs broadly in line with prior year at £4,634m (2012: £4,667m).

Profit before tax decreased 36% to £2,539m.

Total assets decreased £209.9bn to £863.8bn, primarily reflecting decreases in derivative financial instruments, cash and balances at central banks, and trading portfolio assets.

CRD III RWAs decreased 20% to £142.6bn primarily driven by a reduction of sovereign exposures in the trading book, risk reductions in the trading book and Exit Quadrant RWAs.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	349	530
Net fee and commission income	3,257	3,029
Net trading income	6,605	7,691
Net investment income	530	521
Other income	8	7
Total income	10,749	11,778
Credit impairment charges and other provisions	(220)	(204)
Net operating income	10,529	11,574
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(7,417)	(7,425)
UK bank levy	(333)	(206)
Costs to achieve Transform	(262)	-
Operating expenses	(8,012)	(7,631)
Other net income	22	50
Profit before tax	2,539	3,993
Balance Sheet Information		
Loans and advances to banks and customers at amortised cost ^a	£143.8bn	£143.5bn
Customer deposits ^a	£81.9bn	£75.9bn
Total assets^b	£863.8bn	£1,073.7bn
Risk weighted assets – CRD III ^b	£142.6bn	£177.9bn
Risk weighted assets – CRD IV fully loaded ^b	£221.6bn	

Note

a As at 31 December 2013 loans and advances included £112bn of loans and advances to customers (including settlement balances of £35.4bn and cash collateral of £36bn) and loans and advances to banks of £31.8bn (including settlement balances of £5.2bn and cash collateral of £14.7bn). Customer deposits included £34.5bn relating to settlement balances and £27bn relating to cash collateral.

b 2013 total assets and risk weighted assets reflect a reallocation of liquidity pool assets to other businesses.

£10,749m
total income

£2,539m
profit before tax

Analysis of total income		2013	2012 ^c
		£m	£m
Macro Products ^a		3,110	4,024
Credit Products ^a		2,427	2,654
FICC		5,537	6,678
Equities and Prime Services		2,667	2,183
Investment Banking		2,221	2,140
Principal Investments		62	206
Exit Quadrant Assets ^b		262	571
Total income		10,749	11,778

	Adjusted		Statutory	
	2013	2012	2013	2012
Performance Measures				
Loan loss rate (bps)	14	13	14	13
Cost: income ratio	75%	65%	75%	65%
Compensation: income ratio	43.1%	39.6%	43.1%	39.6%
Other measures				
Average DVaR (95%)			£29m	£38m
Number of employees (full time equivalent)			26,200	25,600

Note

a Macro Products represent Rates, Currency and Commodities income. Credit Products represent Credit and Securitised Products income.

b The Exit Quadrant consist of the Investment Bank Exit Quadrant business units as detailed on page 82, income regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition and relevant litigation items.

c 2012 FICC and Exit Quadrant amounts restated to appropriately reflect the Exit Quadrant portfolio.

£3,115m
total income

£801m
adjusted profit before tax

Corporate Banking

Total income increased 2% to £3,115m reflecting an increase in UK income, partially offset by non-recurring income from a reduction in Exit Quadrant assets in Europe and previously exited businesses. Net interest margin remained broadly flat at 121bps (2012: 124bps) as reduced funding rates offset between assets and liabilities. Customer asset margin increased 16bps to 133bps and customer liability margin reduced 14bps to 97bps following the reduction in funding rates.

Credit impairment charges declined 42% to £510m largely driven by Europe, which saw charges reduce by £224m to £318m following ongoing action to reduce exposure to the property and construction sector in Spain. Charges were also lower against large Corporate clients in the UK.

Adjusted operating expenses increased 6% to £1,806m including costs to achieve Transform of £114m, which primarily related to restructuring across all regions and the UK bank levy of £51m (2012: £39m). Statutory operating expenses improved 4% to £2,456m, due to a lower charge for interest rate hedging products redress of £650m (2012: £850m).

Adjusted profit before tax improved 74% to £801m. UK adjusted profit before tax improved 14% to £948m driven by lower credit impairment charges and higher income. Europe adjusted loss before tax improved 40% to £243m principally due to lower credit impairment charges, partially offset by reduced income from exited businesses and costs to achieve Transform. Rest of the World adjusted profit before tax improved £61m to £96m due to lower impairment and prior year costs reflecting the impact of exited businesses.

Statutory profit before tax was £151m (2012: loss of £390m) reflecting the reduced charge for interest rate hedging products redress. Adjusted attributable profit of £247m (2012: £228m) was impacted by a write down of deferred tax assets relating to Spain.

Loans and advances to customers decreased 5% to £61.1bn driven by the rundown of Exit Quadrant portfolios in Europe and a reduction in client demand as working capital deposits increased in the UK. Loans and advances to customers at fair value which consists of the Education, Social Housing and Local Authority (ESHLA) portfolio decreased 11% to £15.7bn from fair value adjustments reflecting rising long term interest rates and paydowns.

Customer deposits increased 9% to £108.7bn primarily due to the growth of UK deposits.

Total assets increased £26.1bn to £113.9bn reflecting a reallocation of liquidity pool assets previously held centrally.

CRD III RWAs decreased 3% to £68.9bn driven primarily by improvements in book quality and a reduction in Exit Quadrant RWAs, offset by the reallocation of liquidity pool assets previously held centrally.

	2013 £m	2012 ^b £m
Income Statement Information		
Net interest income	1,987	1,911
Net fee and commission income	992	998
Net trading income	97	87
Net investment income	12	23
Other income	27	27
Total income	3,115	3,046
Credit impairment charges and other provisions	(510)	(885)
Net operating income	2,605	2,161
Operating expenses (excluding UK bank levy, provision for interest rate hedging products redress and costs to achieve Transform)		
	(1,641)	(1,672)
UK bank levy	(51)	(39)
Provision for interest rate hedging products redress	(650)	(850)
Costs to achieve Transform	(114)	-
Operating expenses	(2,456)	(2,561)
Other net income	2	10
Profit/(loss) before tax	151	(390)
Adjusted profit before tax^a	801	460
Balance Sheet Information and Key Facts		
Loans and advances to customers at amortised cost	£61.1bn	£64.3bn
Loans and advances to customers at fair value	£15.7bn	£17.6bn
Customer deposits	£108.7bn	£99.6bn
Total assets ^b	£113.9bn	£87.8bn
Risk weighted assets – CRD III ^b	£68.9bn	£70.9bn
Risk weighted assets – CRD IV fully loaded ^b	£70.5bn	
Number of employees (full time equivalents)	12,800	13,000

Notes

a Adjusted profit before tax excludes the provision for interest rate hedging products redress of £650m (2012: £850m).

b 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£3,115m
total income

£801m
adjusted profit before tax

Performance Measures	Adjusted ^a		Statutory	
	2013	2012	2013	2012
Loan loss rate (bps)	77	127	77	127
Cost: income ratio	58%	56%	79%	84%

Income Statement Information

	2013				2012			
	UK £m	Europe £m	RoW £m	Total £m	UK £m	Europe £m	RoW £m	Total £m
Income	2,330	250	535	3,115	2,220	300	526	3,046
Credit impairment charges and other provisions	(174)	(318)	(18)	(510)	(284)	(542)	(59)	(885)
Operating expenses (excluding UK bank levy, provision for interest rate hedging products redress and costs to achieve Transform)	(1,114)	(146)	(381)	(1,641)	(1,082)	(156)	(434)	(1,672)
UK bank levy	(39)	(6)	(6)	(51)	(26)	(7)	(6)	(39)
Provision for interest rate hedging products redress	(650)	-	-	(650)	(850)	-	-	(850)
Costs to achieve Transform	(56)	(23)	(35)	(114)	-	-	-	-
Other net income	1	-	1	2	2	-	8	10
Profit/(loss) before tax	298	(243)	96	151	(20)	(405)	35	(390)
Adjusted profit/(loss) before tax^a	948	(243)	96	801	830	(405)	35	460

Notes

a Adjusted profit before tax and adjusted performance measures exclude the provision for interest rate hedging products redress of £650m (2012: £850m).

£1,839m
total income

£19m
adjusted loss before tax

Wealth and Investment Management

Total income of £1,839m remained broadly in line with the prior year.

Net interest income of £859m was also in line with the prior year, as growth in deposit and lending balances, primarily in the High Net Worth business, was offset by a 19bps decrease in net interest margin to 104bps reflecting a change in product mix and reduced contributions from structural hedges. Customer asset margin increased 21bps to 86bps due to lower funding rates. Average customer assets increased 14% to £22.4bn. Customer liability margin decreased 15bps to 97bps reflecting a change in product mix and lower funding rates. Average customer liabilities increased 21% to £60.6bn.

Net fees and commission income increased 2% to £968m.

Credit impairment charges increased £83m to £121m, largely reflecting the impact of deterioration in recovery values from property held as security, primarily in Europe. Q213 included a charge of £15m relating to secured lending on Spanish property. For further details please refer to Note 24 Goodwill and Intangible Assets on page 223.

Adjusted operating expenses increased £241m to £1,750m largely reflecting costs to achieve Transform of £158m and a £23m customer remediation provision. Statutory operating expenses increased £320m to £1,829m including goodwill impairment of £79m (2012: £nil).

Adjusted loss before tax of £19m moved from a profit of £274m in 2012 primarily driven by costs to achieve Transform, increased credit impairment charges and the customer remediation provision. An adjusting item of £79m relating to the impairment of goodwill was also included in the statutory loss before tax of £98m (2012: profit of £274m).

Loans and advances to customers increased 8% to £23.1bn and customer deposits increased 18% to £63.4bn primarily driven by growth in the High Net Worth business.

CRD III RWAs increased 4% to £16.7bn driven by reallocation of liquidity pool assets previously held centrally, offset by improvements to the application of collateral to credit exposures.

Client assets increased 10% to £204.8bn driven by growth in the High Net Worth business and favourable equity market movements.

	2013 £m	2012 £m
Income Statement Information		
Net interest income	859	856
Net fee and commission income	968	948
Net trading and investment income	18	16
Other expense	(6)	-
Total income	1,839	1,820
Credit impairment charges and other provisions	(121)	(38)
Net operating income	1,718	1,782
Operating expenses (excluding UK bank levy, goodwill impairment and costs to achieve Transform)	(1,586)	(1,505)
UK bank levy	(6)	(4)
Goodwill impairment	(79)	-
Costs to achieve Transform	(158)	-
Operating expenses	(1,829)	(1,509)
Other net income	13	1
(Loss)/profit before tax	(98)	274
Adjusted (loss)/profit before tax^a	(19)	274
Balance Sheet Information		
Loans and advances to customers at amortised cost	£23.1bn	£21.3bn
Customer deposits	£63.4bn	£53.8bn
Total assets ^b	£37.6bn	£24.5bn
Risk weighted assets – CRD III ^b	£16.7bn	£16.1bn
Risk weighted assets – CRD IV fully loaded ^b	£17.3bn	

Notes

a Adjusted (loss)/profit before tax excludes the impact of the provision for goodwill impairment of £79m (2012: £nil).

b 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

£1,839m
total income

£19m
adjusted loss before tax

	Adjusted ^a 2013	2012	Statutory 2013	2012
Performance Measures				
Loan loss rate (bps)	51	17	51	17
Cost: income ratio	95%	83%	99%	83%
Other financial measures				
Client assets			£204.8bn	£186.0bn
Number of employees			8,300	8,300

Notes

a Adjusted performance measures exclude the impact of the provision for goodwill impairment of £79m (2012: £nil).

Financial review

Analysis of results by business

Head Office and Other Operations

Adjusted income declined to a net expense of £121m (2012: income of £201m), predominately due to the non-recurrence of gains related to hedges of employee share awards in Q112 of £235m and the residual net expense from treasury operations, including an adjustment to the carrying amount of subordinated liabilities.

Operating expenses decreased £46m to £133m, mainly due to the non-recurrence of the £97m penalty arising from the industry wide investigation into the setting of inter-bank offered rates recognised in H112, partially offset by costs to achieve Transform of £22m and regulatory investigation and legal costs.

Adjusted loss before tax of £247m moved from a profit of £39m in 2012. Statutory loss before tax improved to £467m (2012: £4,313m) including an own credit charge of £220m (2012: £4,579m), partially offset by the non-recurrence of the £227m gain on disposal of investment in BlackRock Inc. in 2012.

Total assets decreased 35% to £27.3bn primarily reflecting a reduction of group liquidity pool assets and a reallocation to the businesses.

CRD III RWAs decreased £2.3bn to £3.0bn primarily driven by reallocation of liquidity pool assets to the businesses.

	2013 £m	2012 £m
Income Statement Information		
Adjusted total (expense)/income net of insurance claims	(121)	201
Own credit charge	(220)	(4,579)
Gain on disposal of investment in BlackRock, Inc.	-	227
Total expense net of insurance claims	(341)	(4,151)
Credit impairment release/(charge) and other provisions	2	(6)
Net operating expense	(339)	(4,157)
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(96)	(160)
UK bank levy	(15)	(19)
Costs to achieve Transform	(22)	-
Operating expenses	(133)	(179)
Other net income/(expense)	5	23
Loss before tax	(467)	(4,313)
Adjusted (loss)/profit before tax^a	(247)	39
Balance Sheet Information		
Total assets ^b	£27.3bn	£41.7bn
Risk weighted assets – CRD III ^b	£3.0bn	£5.3bn
Risk weighted assets – CRD IV fully loaded ^b	£2.5bn	
Number of employees (full time equivalent)	100	200

Notes

a Adjusted (loss)/profit before tax excludes the impact of an own credit loss £220m (2012: loss of £4,579m) and £nil (2012: £227m) gain on disposal of strategic investment in BlackRock, Inc.

b 2013 total assets and risk weighted assets reflect a reduction in the liquidity pool and a reallocation to businesses of liquidity pool assets previously held centrally.

Presentation of information

Barclays Bank PLC is a public limited company, registered in England under company number 1026167. The bank was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on the 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985 the Bank was registered as a public limited company and its name was changed from Barclays Bank International Limited to Barclays Bank PLC.

All of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC.

Barclays approach to disclosures

The Group aims to continually enhance its disclosures and their usefulness to the readers of the financial statements in light of developing market practice and areas of focus. Consequently Barclays disclosures go beyond the minimum standards required by accounting standards and other regulatory requirements.

During 2012, Barclays Plc Group welcomed the recommendations made by the Enhanced Disclosure Taskforce (EDTF) and adopted the majority of the recommendations.

The EDTF was formed by the Financial Stability Board with a remit to broaden and deepen the risk disclosures of global banks in a number of areas, including liquidity and funding, credit risk and market risk.

For 2013 Barclays Plc Group has sought to further enhance disclosures in order to meet the recommendations. In particular additional disclosures on the following have been made:

- Enhanced the encumbrance disclosure to improve reconciliation to the balance sheet and give increased information on unencumbered assets that cannot be pledged as collateral;
- Provided more granular information on RWAs;
- Increased information on impaired loans;
- Provided further information on our high risk wholesale and retail portfolios; and
- Expanded the market risk section providing better linkages between the balance sheet and value at Risk (VaR).

It is Barclays' view that best in class disclosures will continue to evolve in light of ongoing market and stakeholder engagement with the banking sector. Barclays is committed to engaging and responding to this feedback in order to meet the information needs of stakeholders.

British Bankers' Association (BBA) Code for Financial Reporting Disclosure

Barclays has adopted the BBA Code for Financial Reporting Disclosure and has prepared the 2013 Annual Report and Accounts in compliance with the Code. The British Bankers' Association published a Code for Financial Reporting Disclosure (the Code). The Code sets out five disclosure principles together with supporting guidance. The principles are that UK banks will:

- provide high quality, meaningful and decision-useful disclosures;
- review and enhance their financial instrument disclosures for key areas of interest;
- assess the applicability and relevance of good practice recommendations to their disclosures acknowledging the importance of such guidance;
- seek to enhance the comparability of financial statement disclosures across the UK banking sector; and
- clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Differences between Barclays Bank PLC and the Parent Company – Barclays PLC

Barclays Bank PLC is a wholly owned subsidiary of Barclays PLC, which is the Group's ultimate parent company. The Barclays Bank PLC annual report is prepared to satisfy legal and regulatory requirements, therefore more extensive disclosures are contained within the Barclays PLC annual report which may be of interest to readers.

There are no differences in the manner in which risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group, therefore a portion of the Risk disclosures found in the Barclays Bank PLC annual report are identical to those in the Barclays PLC annual report.

Presentation of information

The consolidated financial statements of Barclays Bank PLC and Barclays PLC are materially the same, with the key differences being that, in accordance with IFRS:

- Preference shares issued by Barclays Bank PLC are included within share capital and share premium in Barclays Bank PLC but represent non-controlling interests in Barclays PLC.
- Certain issuances of capital notes by Barclays Bank PLC are included within other shareholders' equity in Barclays Bank PLC, but represent non-controlling interests in Barclays PLC.
- Barclays PLC shares held for the purposes of employee share schemes and for trading are recognised as available for sale investments and trading portfolio assets respectively within Barclays Bank PLC. Barclays PLC deducts these treasury shares from shareholders equity.
- Shares issued by Barclays PLC to fund share awards for employee share schemes are held as a liability within Barclays Bank PLC, payable to Barclays PLC until settled. These are recorded as share capital and share premium in Barclays PLC.
- Other equity instruments issued by Barclays PLC held for trading purposes are recognised as trading portfolio assets within Barclays Bank PLC. Barclays PLC deducts these instruments from shareholders equity.
- There have been two issuances of contingent convertible capital securities (CCSs) and two issuances of contingent capital notes (CCNs) within the Group. The CCNs create differences between Barclays PLC and Barclays Bank PLC. The CCNs both made by Barclays Bank PLC pay interest and principal to the holder unless the consolidated CET 1 ratio of Barclays PLC falls below 7%, in which case they are cancelled from the consolidated perspective. The coupon payable on the CCNs is higher than a market rate of interest for a similar note without this risk. The accounting for these instruments differs in the consolidated financial statements of Barclays PLC and Barclays Bank PLC as follows:
 - In the case of the first CCN issuance which took place in Q4 2012, the cancellation is effected by an automatic legal transfer from the holder to Barclays PLC. In these circumstances, Barclays Bank PLC remains liable to Barclays PLC. Barclays Bank PLC does not benefit from the cancellation feature although it pays a higher than market rate for a similar note, and therefore the initial fair value of the note recognised was higher than par. The difference between fair value and par is amortised to the income statement over time.
 - In the case of the second CCN issuance which took place in Q2 2013, the cancellation is directly effected in Barclays Bank PLC. To Barclays Bank PLC, the cancellation feature is separately valued from the host liability as an embedded derivative with changes in fair value reported in the income statement. The initial fair value of the host liability recognised was higher than par by the amount of the initial fair value of the derivative and the difference is amortised to the income statement over time.

Statutory Accounts

The consolidated accounts of Barclays Bank PLC and its subsidiaries are set out on pages 164 to 169. The accounting policies on pages 170 to 173 and the notes commencing on page 174 apply equally to both sets of accounts unless otherwise stated.

The comparatives in the financial statements and notes to the financial statements have been restated to reflect the implementation of IFRS 10 Consolidated Financial Statements and IAS 19 Employee Benefits (Revised 2011). For additional information refer to Note 44.

Throughout the Barclays Bank annual report we have provided references to any additional disclosures provided in the Barclays PLC annual report, found at: <http://group.barclays.com/about-barclays/investor-relations/annual-reports>

Independent Auditors' report

Independent auditors' report to the members of Barclays Bank PLC

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of The Group's and of the parent company's affairs as at 31 December 2013 and of The Group's profit and The Group's and the parent company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards The Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and parent company financial statements (the "financial statements"), which are prepared by Barclays Bank PLC, comprise:

- the consolidated and parent company balance sheet as at 31 December 2013;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated and parent company cash flow statements for the year then ended;
- the consolidated and parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to The Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditors' report

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities for accounts set out on page 49 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Ratcliffe (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3rd March 2014

Notes

- a The maintenance and integrity of the Barclays plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent Registered Public Accounting Firm's report

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Barclays Bank PLC

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements present fairly, in all material respects, the financial position of Barclays Bank PLC and its subsidiaries at 31 December 2013 and 31 December 2012, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 44, in 2013 the Company changed the manner in which it assesses consolidation, due to the implementation of IFRS 10: Consolidated Financial Statements; and the manner in which it accounts for its employee benefits due to the implementation of IAS 19 (revised): Employee Benefits, which resulted in the inclusion of the January 1, 2012 balance sheet.

PricewaterhouseCoopers LLP
London, United Kingdom
3 March 2014

Consolidated financial statements

Consolidated income statement

For the year ended 31 December	Notes	The Group	
		2013 £m	2012 £m
Continuing operations			
Interest income	3	18,315	19,211
Interest expense	3	(6,662)	(7,561)
Net interest income		11,653	11,650
Fee and commission income	4	10,500	10,213
Fee and commission expense	4	(1,748)	(1,677)
Net fee and commission income		8,752	8,536
Net trading income	5	6,548	3,350
Net investment income	6	680	690
Net premiums from insurance contracts		732	896
Other income		98	335
Total income		28,463	25,457
Net claims and benefits incurred on insurance contracts		(509)	(600)
Total income net of insurance claims		27,954	24,857
Credit impairment charges and other credit provisions	7	(3,071)	(3,340)
Net operating income		24,883	21,517
Staff costs	34	(12,155)	(11,467)
Administration and general expenses	8	(6,613)	(5,986)
Depreciation of property, plant and equipment	23	(647)	(669)
Amortisation of intangible assets		(480)	(435)
Goodwill impairment	24	(79)	-
Provision for PPI redress		(1,350)	(1,600)
Provision for interest rate hedging products redress		(650)	(850)
Operating expenses		(21,974)	(21,007)
Share of post-tax results of associates and joint ventures		(56)	110
Profit on disposal of subsidiaries, associates and joint ventures	9	6	28
Gain on acquisitions		26	2
Profit before tax		2,885	650
Tax	10	(1,577)	(617)
Profit after tax		1,308	33
Attributable to:			
Equity holders of the parent		963	(306)
Non-controlling interests	33	345	339
Profit after tax		1,308	33

The Board of Directors approved the accounts set out on pages 164 to 285 on 3 March 2014.

Note

As permitted by section 408(3) of the Companies Act 2006 an income statement for the parent company has not been presented.

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December	The Group	
	2013	2012
	£m	£m
Profit after tax	1,308	33
Other comprehensive (loss)/income from continuing operations:		
Currency translation reserve		
- Currency translation differences	(1,767)	(1,548)
Available for sale reserve		
- Net (losses)/gains from changes in fair value	(2,730)	1,237
- Net gains transferred to Net profit on disposal	(145)	(549)
- Net (gains)/losses transferred to net profit due to impairment	(7)	40
- Net gains transferred from Net profit due to fair value hedging	2,376	474
- Changes in insurance liabilities	28	(150)
- Tax	100	(352)
Cash flow hedging reserve		
- Net (losses)/gains from changes in fair value	(1,914)	1,499
- Net gains transferred to net profit	(547)	(695)
- Tax	571	(142)
Other	(37)	96
Total comprehensive loss that may be recycled to profit and loss	(4,072)	(90)
Other comprehensive (loss)/income not recycled to profit or loss:		
Retirement benefit remeasurements	(512)	(1,553)
Deferred tax	(3)	318
Other comprehensive loss for the year	(4,587)	(1,325)
Total comprehensive loss for the year	(3,279)	(1,292)
Attributable to:		
Equity holders of the Parent	(2,979)	(1,422)
Non-controlling interests	(300)	130
	(3,279)	(1,292)

Consolidated financial statements

Consolidated balance sheet

As at	Notes	The Group			The Bank		
		31 December 2013 £m	31 December 2012 ^a £m	1 January 2012 ^a £m	31 December 2013 £m	31 December 2012 ^b £m	1 January 2012 ^b £m
Assets							
Cash and balances at central banks		45,687	86,191	106,990	42,139	81,996	103,087
Items in the course of collection from other banks		1,282	1,473	1,812	992	1,076	1,634
Trading portfolio assets	12	133,089	146,352	153,508	66,212	74,719	85,048
Financial assets designated at fair value	13	38,968	46,629	37,767	80,621	82,237	44,552
Derivative financial instruments	14	324,495	469,156	538,977	337,566	476,129	546,921
Available for sale financial investments	15	91,788	75,133	69,027	82,272	61,753	47,979
Loans and advances to banks	19	38,253	40,871	46,768	50,105	51,175	52,287
Loans and advances to customers	19	430,411	423,906	429,559	463,044	474,723	517,780
Reverse repurchase agreements and other similar secured lending	22	186,779	176,522	153,030	182,290	174,284	161,436
Prepayments, accrued income and other assets		4,413	4,362	4,562	16,686	12,019	10,384
Investments in associates and joint ventures	39	653	633	487	182	174	174
Investment in subsidiaries		-	-	-	14,374	14,718	22,073
Property, plant and equipment	23	4,216	5,754	7,166	1,724	1,906	1,937
Goodwill and intangible assets	24	7,685	7,915	7,846	4,806	4,564	4,333
Current tax assets	10	181	252	374	84	119	166
Deferred tax assets	10	4,807	3,559	3,611	2,736	1,654	1,489
Retirement benefit assets	36	133	53	41	-	-	72
Total assets		1,312,840	1,488,761	1,561,525	1,345,833	1,513,246	1,601,352
Liabilities							
Deposits from banks		54,834	77,012	91,123	63,892	83,740	108,816
Items in the course of collection due to other banks		1,359	1,587	969	1,168	1,231	966
Customer accounts		427,936	385,500	365,540	497,320	481,126	454,522
Repurchase agreements and other similar secured borrowing	22	196,748	217,178	207,292	188,140	187,148	193,453
Trading portfolio liabilities	12	53,464	44,794	45,887	28,990	30,105	28,632
Financial liabilities designated at fair value	16	64,796	78,561	88,453	77,926	91,376	101,069
Derivative financial instruments	14	320,634	462,721	528,137	326,985	466,321	535,837
Debt securities in issue		86,693	119,525	129,678	62,812	85,173	83,939
Subordinated liabilities	30	22,249	24,422	24,870	20,982	22,941	26,764
Accruals, deferred income and other liabilities	26	13,673	12,532	12,854	19,043	14,996	15,471
Provisions	27	3,886	2,766	1,529	3,313	2,405	939
Current tax liabilities	10	1,042	617	1,267	520	304	979
Deferred tax liabilities	10	348	341	695	176	69	348
Retirement benefit liabilities	36	1,958	1,282	243	1,588	1,011	-
Total liabilities		1,249,620	1,428,838	1,498,537	1,292,855	1,467,946	1,551,735
Total equity							
Called up share capital and share premium		14,494	14,494	14,494	14,494	14,494	14,494
Other equity instruments		2,078	-	-	2,078	-	-
Other reserves		(233)	3,329	3,308	79	2,653	1,456
Retained earnings		44,670	39,244	42,094	36,327	28,153	33,667
Total equity excluding non-controlling interests ^a		61,009	57,067	59,896	52,978	45,300	49,617
Non-controlling interests	33	2,211	2,856	3,092	-	-	-
Total equity		63,220	59,923	62,988	52,978	45,300	49,617
Total liabilities and equity		1,312,840	1,488,761	1,561,525	1,345,833	1,513,246	1,601,352

The financial statements on pages 164 to 285 were approved by the Board of Directors on 3 March 2014 and signed on its behalf by:

Sir David Walker
Group Chairman

Antony Jenkins
Group Chief Executive

Tushar Morzaria
Group Finance Director

- Note
- a As permitted by section 408 of the Companies Act 2006 an income statement for the parent company has not been presented. Included in shareholders' equity excluding non-controlling interests for 'The Bank' is a profit after tax for the year ended 31 December 2013 of £3,407m (2012: loss of £2,767m).
- b The comparatives in the financial statements and notes to the financial statements have been restated to reflect the implementation of IFRS 10 Consolidated Financial Statements and IAS 19 Employee Benefits (Revised 2011). For additional information refer to Note 44.

Consolidated financial statements

Statement of changes in equity

The Group	Called up share capital and share premium ^a £m	Other equity instruments ^a	Available for sale reserve ^b £m	Cash flow hedging reserve ^b £m	Currency translation reserve ^b £m	Other shareholder's equity ^a £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance as at 1 January 2013	14,494	-	526	2,099	59	645	39,244	57,067	2,856	59,923
Profit after tax	-	-	-	-	-	-	963	963	345	1,308
Currency translation movements	-	-	-	-	(1,201)	-	-	(1,201)	(566)	(1,767)
Available for sale investments	-	-	(375)	-	-	-	-	(375)	(3)	(378)
Cash flow hedges	-	-	-	(1,826)	-	-	-	(1,826)	(64)	(1,890)
Pension remeasurement	-	-	-	-	-	-	(503)	(503)	(12)	(515)
Other	-	-	-	-	-	-	(37)	(37)	-	(37)
Total comprehensive (loss) / income for the year	-	-	(375)	(1,826)	(1,201)	-	423	(2,979)	(300)	(3,279)
Issue of other equity instruments	-	2,078	-	-	-	-	-	2,078	-	2,078
Equity settled share schemes	-	-	-	-	-	-	689	689	-	689
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	-	(1,047)	(1,047)	-	(1,047)
Dividends on ordinary shares	-	-	-	-	-	-	(734)	(734)	(342)	(1,076)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	-	(471)	(471)	-	(471)
Redemption of capital instruments	-	-	-	-	-	(100)	-	(100)	-	(100)
Capital contribution from Barclays PLC	-	-	-	-	-	-	6,553	6,553	-	6,553
Other reserve movements	-	-	-	-	-	(60)	13	(47)	(3)	(50)
Balance as at 31 December 2013	14,494	2,078	151	273	(1,142)	485	44,670	61,009	2,211	63,220
Published at 31 December 2011	14,494	-	(130)	1,442	1,348	648	44,276	62,078	3,092	65,170
Effects of IFRS 10	-	-	-	-	-	-	(945)	(945)	-	(945)
Effects of IAS 19 Revised	-	-	-	-	-	-	(1,238)	(1,238)	-	(1,238)
Balance as at 1 January 2012	14,494	-	(130)	1,442	1,348	648	42,093	59,895	3,092	62,987
Profit after tax	-	-	-	-	-	-	(306)	(306)	339	33
Currency translation movements	-	-	-	-	(1,289)	-	-	(1,289)	(259)	(1,548)
Available for sale investments	-	-	656	-	-	-	-	656	44	700
Cash flow hedges	-	-	-	657	-	-	-	657	5	662
Pension remeasurement	-	-	-	-	-	-	(1,235)	(1,235)	-	(1,235)
Other	-	-	-	-	-	1	94	95	1	96
Total comprehensive income for the year	-	-	656	657	(1,289)	1	(1,447)	(1,422)	130	(1,292)
Equity settled share schemes	-	-	-	-	-	-	717	717	-	717
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	-	(946)	(946)	-	(946)
Dividends paid on ordinary shares	-	-	-	-	-	-	(696)	(696)	(229)	(925)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	-	(465)	(465)	-	(465)
Redemption of capital instruments	-	-	-	-	-	-	-	-	-	-
Other reserve movements	-	-	-	-	-	(4)	(12)	(16)	(137)	(153)
Balance as at 31 December 2012	14,494	-	526	2,099	59	645	39,244	57,067	2,856	59,923

Notes

a For further details refer to Note 31

b For further details refer to Note 32

Consolidated financial statements

Statement of changes in equity

The Bank	Called up share capital and share premium ^a £m	Other equity instruments £m	Available for sale reserve ^b £m	Cash flow hedging reserve ^b £m	Currency translation reserve ^b £m	Other shareholders' equity ^b £m	Retained earnings £m	Total £m
Balance as at 1 January 2013	14,494	-	474	2,008	(539)	710	28,153	45,300
Profit after tax	-	-	-	-	-	-	3,407	3,407
Currency translation movements	-	-	-	-	(173)	-	-	(173)
Available for sale investments	-	-	(486)	-	-	-	-	(486)
Cash flow hedges	-	-	-	(1,754)	-	-	-	(1,754)
Pension remeasurement	-	-	-	-	-	-	(698)	(698)
Other	-	-	-	-	-	-	(45)	(45)
Total comprehensive (loss) / income for the year	-	-	(486)	(1,754)	(173)	-	2,664	251
Issue of other equity instruments	-	2,078	-	-	-	-	-	2,078
Equity settled share schemes	-	-	-	-	-	-	117	117
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	-	(91)	(91)
Dividends paid	-	-	-	-	-	-	(1,242)	(1,242)
Capital contribution from Barclays PLC	-	-	-	-	-	-	6,553	6,553
Redemption of capital instruments	-	-	-	-	-	(100)	-	(100)
Other reserve movements	-	-	-	-	-	(61)	173	112
Balance as at 31 December 2013	14,494	2,078	(12)	254	(712)	549	36,327	52,978
Published at 31 December 2011	14,494	-	(464)	1,366	(158)	712	34,809	50,759
Effects of IAS 19 Revised	-	-	-	-	-	-	(1,142)	(1,142)
Balance as at 1 January 2012 restated	14,494	-	(464)	1,366	(158)	712	33,667	49,617
Profit after tax	-	-	-	-	-	-	(2,767)	(2,767)
Currency translation movements	-	-	-	-	(381)	-	-	(381)
Available for sale investments	-	-	938	-	-	-	-	938
Cash flow hedges	-	-	-	642	-	-	-	642
Pension remeasurement	-	-	-	-	-	-	(1,303)	(1,303)
Other	-	-	-	-	-	-	41	41
Total comprehensive income for the year	-	-	938	642	(381)	-	(4,029)	(2,830)
Equity settled share schemes	-	-	-	-	-	-	76	76
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	-	(130)	(130)
Dividends paid	-	-	-	-	-	-	(1,162)	(1,162)
Redemption of capital instruments	-	-	-	-	-	-	-	-
Other reserve movements	-	-	-	-	-	(2)	(269)	(271)
Balance as at 31 December 2012	14,494	-	474	2,008	(539)	710	28,153	45,300

Notes

a For further details refer to Note 31

b For further details refer to Note 32

Notes to the financial statements

For the year ended 31 December 2013

For the year ended 31 December	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Continuing operations				
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:				
Profit/(Loss) before tax	2,885	650	3,291	(3,823)
Adjustment for non-cash items:				
Allowance for impairment	3,071	3,340	2,405	4,405
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	1,276	1,119	647	513
Other provisions, including pensions	3,673	3,080	3,072	2,998
Net profit on disposal of investments and property, plant and equipment	(145)	(524)	(93)	(558)
Other non-cash movements	(2,162)	5,136	(2,798)	3,928
Changes in operating assets and liabilities				
Net (increase)/decrease in loans and advances to banks and customers	(6,774)	767	7,704	42,571
Net (increase)/decrease in reverse repurchase agreements and other similar lending	(10,264)	(23,492)	(8,006)	(12,848)
Net (decrease)/increase in deposits and debt securities in issue	(12,574)	(4,312)	(26,015)	2,762
Net (decrease)/increase in repurchase agreements and other similar borrowing	(20,430)	9,886	992	(6,305)
Net decrease/(increase) in derivative financial instruments	2,574	4,405	(772)	1,276
Net decrease in trading assets	13,423	6,896	8,359	10,244
Net increase/(decrease) in trading liabilities	8,670	(973)	(1,115)	1,473
Net (increase) in financial investments	(6,114)	(18,764)	(11,535)	(47,387)
Net decrease/(increase) in other assets	125	535	(4,582)	(1,077)
Net (decrease)/increase in other liabilities	(1,190)	(1,354)	1,883	(2,298)
Corporate income tax paid	(1,558)	(1,516)	(1)	(130)
Net cash from operating activities	(25,514)	(15,121)	(26,564)	(4,256)
Purchase of available for sale investments	(92,024)	(80,797)	(88,204)	(78,360)
Proceeds from sale or redemption of available for sale investments	69,474	74,151	64,333	64,632
Purchase of property, plant and equipment	(737)	(604)	(365)	(377)
Other cash flows associated with investing activities	632	532	(188)	4,819
Net cash from investing activities	(22,655)	(6,718)	(24,424)	(9,286)
Dividends paid	(1,547)	(1,390)	(1,242)	(1,162)
Proceeds of borrowings and issuance of subordinated debt	700	2,258	652	1,894
Repayments of borrowings and redemption of subordinated debt	(1,424)	(2,680)	(1,291)	(4,996)
Net redemption of shares and other equity instruments	2,078	-	2,078	-
Capital contribution from Barclays PLC	6,553	-	6,553	-
Net redemption of shares issued to non-controlling interests	(100)	(111)	-	-
Net redemption of other equity instruments	-	-	(100)	-
Net cash from financing activities	6,260	(1,923)	6,650	(4,264)
Effect of exchange rates on cash and cash equivalents	198	(4,111)	1,484	(3,102)
Net (decrease)/increase in cash and cash equivalents	(41,711)	(27,873)	(42,854)	(20,908)
Effects of IFRS 10 on opening balance	-	96	-	-
Cash and cash equivalents at beginning of year	121,896	149,673	107,664	128,572
Cash and cash equivalents at end of year	80,185	121,896	64,810	107,664
Cash and cash equivalents comprise:				
Cash and balances at central banks	45,687	86,191	42,139	81,996
Loans and advances to banks with original maturity less than three months	33,690	33,473	22,204	25,304
Available for sale treasury and other eligible bills with original maturity less than three months	644	2,228	303	360
Trading portfolio assets with original maturity less than three months	164	4	164	4
	80,185	121,896	64,810	107,664

Interest received by The Group in 2013 was £23,387m (2012: £24,390m) and interest paid by The Group in 2013 was £10,656m (2012: £16,701m). Interest received by The Bank in 2013 was £18,982m (2012: £18,372m) and interest paid by The Bank in 2013 was £9,534m (2012: £14,454m).

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £4,722m at 31 December 2013 (2012: £5,169m). The Bank was required to maintain balances with central banks and other regulatory authorities of £192m in 2013 (2012: £764m).

Notes to the financial statements

For the year ended 31 December 2013

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

This section describes Barclays significant accounting policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a specific note, the applicable accounting policy and/or critical accounting estimate is contained within the relevant note.

Note 1: Significant accounting policies

1. Reporting entity

These financial statements are prepared for Barclays Bank PLC and its subsidiaries (the Barclays Bank PLC Group or The Group) under Section 399 of the Companies Act 2006. The Group is a major global financial services provider engaged in retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services.

Barclays Bank PLC is a public limited company, incorporated and domiciled in England and Wales having a registered office in England and is the holding company of The Group.

2. Compliance with International Financial Reporting Standards

The consolidated financial statements of The Group, and the individual financial statements of Barclays Bank PLC, have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied.

3. Basis of preparation

The consolidated and individual financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of pounds Sterling (£m), the functional currency of Barclays Bank PLC.

4. Accounting policies

The Group's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out under the relevant notes. Accounting policies that affect the financial statements as a whole are set out below.

(i) Consolidation

Barclays applies IFRS 10 *Consolidated Financial Statements*.

The consolidated financial statements combine the financial statements of Barclays Bank PLC and all its subsidiaries. Subsidiaries are entities over which Barclays Bank PLC has control. The Group has control over another entity when The Group has all of the following:

- 1) power over the relevant activities of the investee, for example through voting or other rights;
- 2) exposure to, or rights to, variable returns from its involvement with the investee; and
- 3) the ability to affect those returns through its power over the investee.

The assessment of control is based on the consideration of all facts and circumstances. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout The Group for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Details of the principal subsidiaries are given in Note 37.

Notes to the financial statements

For the year ended 31 December 2013

(ii) Foreign currency translation

The Group applies IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Transactions and balances in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction. Foreign currency balances are translated into Sterling at the period end exchange rates. Exchange gains and losses on such balances are taken to the income statement.

The Group's foreign operations (including subsidiaries, joint ventures, associates and branches) based mainly outside the UK may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed.

Prior to consolidation (or equity accounting) the assets and liabilities of non-Sterling operations are translated at the closing rate and items of income, expense and other comprehensive income are translated into Sterling at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity. These are transferred to the income statement when The Group loses control, joint control or significant influence over the foreign operation or on partial disposal of the operation.

As the consolidated financial statements include partnerships where The Group member is a partner, advantage has been taken of the exemption under Regulation 7 of the Partnership (Accounts) Regulations 2008 with regard to preparing and filing of individual partnership financial statements.

(iii) Financial assets and liabilities

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement* for the recognition, classification and measurement and derecognition of financial assets and financial liabilities, for the impairment of financial assets, and for hedge accounting.

Recognition

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

Classification and measurement

Financial assets and liabilities are initially recognised at fair value and may be held at fair value or amortised cost depending on The Group's intention toward the assets and the nature of the assets and liabilities, mainly determined by their contractual terms.

The accounting policy for each type of financial asset or liability is included within the relevant note for the item. The Group's policies for determining the fair values of the assets and liabilities are set out in Note 17.

Derecognition

The Group derecognises a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% in the present value of the cash flows – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Critical accounting estimates and judgements

Transactions in which The Group transfers assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis compares The Group's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around this expectation. The method of estimating expected future cash flows depends on the nature of the asset, with market and market-implied data used to the greatest extent possible. The potential variability around this expectation is typically determined by stressing underlying parameters to create reasonable alternative upside and downside scenarios. Probabilities are then assigned to each scenario. Stressed parameters may include default rates, loss severity or prepayment rates.

(iv) Issued debt and equity instruments

The Group applies IAS 32, *Financial Instruments: Presentation*, to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in The Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the AGM and treated as a deduction from equity.

Notes to the financial statements

For the year ended 31 December 2013

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

5. New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except where new standards and amendments to IFRS effective as of 1 January 2013 have resulted in changes in accounting policy. The new amended standards that have material impact on Barclays accounting policies are as follows:

IFRS 10

IFRS 10 replaced requirements in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. This introduced new criteria to determine whether entities in which The Group has interests should be consolidated. The implementation of IFRS 10 resulted in The Group consolidating some entities that were previously not consolidated and deconsolidating some entities that were previously consolidated, principally impacting the consolidation of entities in the Investment Bank with credit market exposures.

IAS 19

IAS 19 (Revised 2011), amongst other changes, requires actuarial gains and losses arising from defined benefit pension schemes to be recognised in full. Previously The Group deferred these over the remaining average service lives of the employees (known as the 'corridor' approach).

The effect of the adoption of these new or amended standards on The Group's financial position, performance and cash flows is disclosed in Note 44.

IFRS 13 Fair Value Measurement

IFRS 13 provides comprehensive guidance on how to calculate the fair value of financial and non-financial assets. The adoption of IFRS 13 did not have a material financial impact on The Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Joint Ventures. The new rules change the definition of a joint operation, requiring The Group to recognise its share of income and expenses, and assets and liabilities for certain entities that were previously accounted for under the equity method. The new standard also removed the option to proportionally consolidate joint arrangements, an option The Group did not use. The adoption of IFRS 11 did not have a material impact on The Group's results or financial position.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 specifies the required disclosures in respect of interests in, and risks arising from, subsidiaries, joint ventures, associates and structured entities whether consolidated or not. As a disclosure only standard it will have no financial impact on The Group.

Amendment to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The Group applied the amendment in the current year, although it did not have a material impact on The Group's results or financial position.

6. Future accounting developments

There have been and are expected to be a number of significant changes to The Group's financial reporting after 2013 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these are as follows:

IAS 32 Amendments to Offsetting Financial Assets and Financial Liabilities, is effective from 1 January 2014. The circumstances in which netting is permitted have been clarified; in particular what constitutes a currently legally enforceable right of set-off and the circumstances in which gross settlement systems may be considered equivalent to net settlement. The amendments, based on current assumptions and applied to the 31 December 2013 balance sheet, are expected to gross up by approximately £35bn certain financial assets and financial liabilities in The Group's balance sheet (mainly derivatives, settlement balances and repurchase agreements), and approximately £10bn in The Bank that were previously reported net. There will be no impact on shareholders equity, profit or loss, other comprehensive income, or cash flows, and no significant impact on the Common equity Tier 1 ratio or the CRD IV leverage ratio. The expected gross up for the consolidated balance sheet will be approximately £35bn and the expected gross up for the individual balance sheet of The Bank will be approximately £20bn. The actual impact could differ to our current estimate as certain industry-wide application issues have yet to be resolved.

IFRS 9 Financial Instruments will change the classification and therefore the measurement of The Group's financial assets, the recognition of impairment and hedge accounting. In addition to these changes, the effect of changes in The Group's own credit risk on the fair value of financial liabilities that The Group designates at fair value through profit and loss will be included in other comprehensive income rather than the income

Notes to the financial statements

For the year ended 31 December 2013

statement. A number of the significant proposals have yet to be finalised and it is therefore not yet possible to estimate the financial effects. The effective date of IFRS 9 is still to be determined.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements are highlighted under the relevant note. Critical accounting estimates and judgements are disclosed in:

	Page		Page
Credit impairment charges and other provisions	176	Goodwill and intangible assets	223
Tax	179	Provisions	229
Available for sale investments	192	Pensions and post-retirement benefits	255
Fair value of financial instruments	193		

7. Other disclosures

To improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication, certain disclosures required under IFRS have been included within the Risk and Financial review sections as follows:

- credit risk, on pages 62 to 93, including exposures to Eurozone countries;
- market risk, on pages 94 to 98;
- funding risk capital, on pages 99 to 103;
- funding risk liquidity, on pages 104 to 124; and
- segmental reporting on page 174.

These are covered by the Audit opinion included on pages 161 to 163.

Notes to the financial statements

Performance

Performance

The notes included in this section focus on the results and performance of Barclays. Information on the income generated, expenditure incurred, segmental performance, tax, and dividends are included here.

2 Segmental reporting

Presentation of segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments*. Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in Head Office. Income and expenses directly associated with each segment are included in determining business segment performance.

An analysis of The Group's performance by business segment and income by geographic segment is included on pages 142 to 143.

3 Net interest income

Accounting for interest income and expense

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement*. Interest income on loans and advances at amortised cost, available for sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires The Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), in the normal course of business there are no individual estimates that are material to the results or financial position.

See also Note 13 Financial assets designated at fair value and Note 16 Financial liabilities designated at fair value for relevant accounting policies.

	2013	2012
	£m	£m
Cash and balances with central banks	219	253
Available for sale investments	1,804	1,736
Loans and advances to banks	468	376
Loans and advances to customers	15,613	16,448
Other	211	398
Interest income	18,315	19,211
Deposits from banks	(201)	(257)
Customer accounts	(2,602)	(2,490)
Debt securities in issue	(2,177)	(2,921)
Subordinated liabilities	(1,572)	(1,632)
Other	(110)	(261)
Interest expense	(6,662)	(7,561)
Net interest income	11,653	11,650

Interest income includes £179m (2012: £211m) accrued on impaired loans.

Other interest income principally includes interest income relating to reverse repurchase agreements and hedging activity. Similarly, other interest expense principally includes interest expense relating to repurchase agreements and hedging activity. Included in net interest income is hedge ineffectiveness as detailed in Note 14.

Notes to the financial statements

Performance

Net interest income remained stable at £11,653m (2012: £11,650m). Interest income decreased by 5% to £18,315m driven by a reduction in income from loans and advances to customers which fell £835m to £15,613m. The decrease in interest income from loans and advances to customers is attributable primarily to a reduction of £661m in Africa RBB, driven by the adverse impact of the depreciation of the ZAR, and a reduction of £382m in the Investment Bank due to reduced average balances. These movements were partly offset by a £303m increase in UK RBB reflecting increased average loan balances due to organic growth and contribution from Barclays Direct. Interest expense reduced 12% to £6,662m driven by a reduction in interest on debt securities in issue of £744m to £2,177m due to lower average balances and lower yields.

The net interest margin for Retail and Business Banking, Corporate Banking and Wealth and Investment Management decreased 8bps to 1.76% (2012: 1.84%), reflecting the reduction in contribution from customer liabilities and Group hedging activities, combined with a reduced contribution from the higher margins in Africa RBB as ZAR depreciated against GBP.

4 Net fee and commission income

Accounting for net fee and commission income

The Group applies IAS 18 Revenue. Fees and commissions charged for services provided or received by The Group are recognised as the services are provided, for example on completion of the underlying transaction.

	2013 £m	2012 £m
Banking, investment management and credit related fees and commissions	10,305	9,945
Brokerage fees	27	92
Foreign exchange commission	168	176
Fee and commission income	10,500	10,213
Fee and commission expense	(1,748)	(1,677)
Net fee and commission income	8,752	8,536

Net fee and commission income increased by £216m to £8,752m. Higher fees as a result of increased volumes within the Barclaycard Business Payment and US portfolios and growth in equity underwriting activity and strong equity capital market (ECM) deal calendar were offset by lower commissions mainly from syndicate and advisory business following concerns about potential slowing down of quantitative easing and the impact of adverse currency movements in Africa RBB.

5 Net trading income

Accounting for net trading income

In accordance with IAS 39, trading positions are held at fair value and the resulting gains and losses are included in the income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through profit or loss. See Note 16 Financial liabilities designated at fair value.

	2013 £m	2012 £m
Trading income	6,768	7,929
Own credit (losses)	(220)	(4,579)
Net trading income	6,548	3,350

Included within net trading income were gains of £914m (2012: £656m gains) on financial assets designated at fair value and losses of £684m (2012: £3,980m loss) on financial liabilities designated at fair value.

Net trading income increased 95% to £6,548m, primarily reflecting a £4,359m variance in own credit (2013: £220m charge, 2012: £4,579m charge) as a result of improved credit spreads on Barclays' issued debt. This was offset partially by a £1,161m decrease in trading income, reflecting market uncertainty around central banks tapering of quantitative easing programmes across a number of product areas in FICC.

Notes to the financial statements

Performance

6 Net investment income

Accounting for net investment income

Dividends are recognised when the right to receive the dividend has been established. Other accounting policies relating to net investment income are set out in Note 15 Available for sale investments, and Note 13 Financial assets designated at fair value.

	2013	2012
	£m	£m
Net gain from disposal of available for sale assets	145	298
Dividend income	14	42
Net (loss) / gain from financial assets designated at fair value	203	233
Other investment income / (losses)	318	117
Net investment income	680	690

Net investment income decreased by £10m to £680m. This was largely driven by lower gains on disposal of available for sale investments partially offset by increases in other investment income as a result of greater certainty regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition.

7 Credit impairment charges and other provisions

Accounting for the impairment of financial assets

Loans and other assets held at amortised cost

In accordance with IAS 39, The Group assesses at each balance sheet date whether there is objective evidence that loan assets or available for sale financial investments (debt or equity) will not be recovered in full and, wherever necessary, recognises an impairment loss in the income statement.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- becoming aware of significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together – generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset or The Group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount.

Uncollectable loans are written off against the related allowance for loan impairment on completion of The Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Available for sale financial investments

Impairment of available for sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity is removed from equity and recognised in the income statement. This may be reversed if there is evidence that the circumstances of the issuer have improved.

Notes to the financial statements

Performance

Impairment of available for sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income. Further declines in the fair value of equity instruments after impairment are recognised in the income statement.

Critical accounting estimates and judgements

The calculation of the impairment allowance involves the use of judgement, based on The Group's experience of managing credit risk.

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these retail portfolios is £2,161m (2012: £2,075m) and amounts to 71% (2012: 63%) of the total impairment charge on loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, The Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment charge reflected in the financial statements in relation to wholesale portfolios is £901m (2012: £1,228m) and amounts to 29% (2012: 37%) of the total impairment charge on loans and advances. Further information on impairment allowances and related credit information is set out within the Risk review section.

	2013 £m	2012 £m
New and increased impairment allowances	3,929	4,447
Releases	(683)	(928)
Recoveries	(201)	(212)
Impairment charges on loans and advances	3,045	3,307
Charges/(releases) in respect of provision for undrawn contractually committed facilities and guarantees provided	17	(4)
Loan impairment	3,062	3,303
Impairment charges on available for sale investments	1	40
Impairment charges/(releases) on reverse repurchase agreements	8	(3)
Credit impairment charges and other provisions	3,071	3,340

Loan impairment fell 7% to £3,062m, reflecting lower impairment in Africa RBB and Corporate Banking, partially offset by higher charges in Europe RBB, Barclaycard and UK RBB.

Notes to the financial statements

Performance

8 Administration and general expenses

	2013 £m	2012 £m
Infrastructure costs		
Property and equipment	1,610	1,656
Depreciation of property, plant and equipment	647	669
Operating lease rentals	645	622
Amortisation of intangible assets	480	435
Impairment of property, equipment and intangible assets	149	17
Total infrastructure costs	3,531	3,399
Other costs		
Consultancy, legal and professional fees	1,260	1,182
Subscriptions, publications, stationery and communications	869	727
Marketing, advertising and sponsorship	583	572
Travel and accommodation	307	324
UK bank levy	504	345
Goodwill impairment	79	-
Other administration and general expenses	686	541
Total other costs	4,288	3,691
Administration and general expenses^{a,b}	7,819	7,090

2013

Administration and general expenses have increased 10% to £7,819m. This was driven by increased infrastructure costs due to the Transform programme, increased consultancy, legal and professional costs to meet new regulatory requirements such as the Dodd-Frank Act and CRD IV, an increase in the UK bank levy reflecting the increased rate and an increase in impairment in relation to premises restructuring in Europe. Within other administration and general expenses, increases in provisions for litigation and regulatory penalties were offset by the non-recurrence of the £290m penalty incurred in 2012 arising from the industry wide investigation into the setting of inter-bank offered rates.

2012

Administration and general expenses have fallen 6% to £7,090m, primarily due to £597m goodwill impairment in 2011 not recurring in 2012 and by a reduction in the underlying cost base reflecting the impact of The Group-wide cost reduction initiative. This has been partly offset by the £290m penalty relating to the industry wide investigation into the setting of interbank offered rates and an increase in expenses relating to the Financial Services Compensation Scheme.

9 Profit on disposal of subsidiaries, associates and joint ventures

There have been no material disposals during the year. The profit on disposal of subsidiaries, associates and joint ventures was £6m (2012: £28m), principally relating to accumulated foreign exchange gains (previously recognised directly in equity) recycled through the income statement within Head Office and Other Operations.

Note

a Total administration and general expenses of £7,819m include depreciation of property, plant and equipment of £647m, amortisation of intangible assets of £480m, goodwill impairment of £79m and administration and other expenses of £6,613m.

b The Group has realigned outsourcing costs from administration and general expenses to staff costs in order to more appropriately reflect the nature and internal management of these costs. The net effect of these movements is to reduce administration and general expenses and increase staff costs by £1,084m in 2013 and £999m in 2012.

Notes to the financial statements

Performance

10 Tax

Accounting for income taxes

Barclays applies IAS 12 *Income Taxes* in accounting for taxes on income. Income tax payable on taxable profits ('Current Tax') is recognised as an expense in the period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

	2013 £m	2012 £m
Current tax charge		
Current year	2,031	565
Adjustment for prior years	156	207
	2,187	772
Deferred tax (credit)		
Current year	(96)	(68)
Adjustment for prior years	(514)	(87)
	(610)	(155)
Tax charge	1,577	617

Tax relating to each component of other comprehensive income can be found in the consolidated statement of comprehensive income, which includes within Other, a tax charge of £37m (2012: £95m credit) principally relating to the UK tax rate change in 2013 and share based payments in 2012 and 2011.

The table below shows the reconciliation between the actual tax charge and the tax charge that would result from applying the standard UK corporation tax rate to The Group's profit before tax.

	2013 £m	2012 £m
Profit before tax from continuing operations	2,885	650
Tax charge based on the standard UK corporation tax rate of 23.25% (2012:24.5%)	671	159
Effect of non-UK profits/losses at statutory tax rates different from the UK statutory tax rate	267	401
Non-creditable taxes	559	563
Non-taxable gains and income	(234)	(604)
Share based payments	(13)	(63)
Deferred tax assets not recognised/(previously not recognised)	409	(135)
Change in tax rates	(155)	(75)
Non-deductible impairment charges, loss on disposals and UK bank levy	118	84
Other items including non-deductible expenses	313	167
Adjustments for prior years	(358)	120
Tax charge	1,577	617
Effective tax rate	55%	95%

Notes to the financial statements

Performance

Current tax assets and liabilities

Movements on current assets and liabilities were as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Assets	252	374	119	166
Liabilities	(617)	(1,397)	(304)	(979)
As at 1 January	(365)	(1,023)	(185)	(813)
Income statement	(2,187)	(772)	(220)	798
Other comprehensive income	(5)	(172)	(33)	(290)
Corporate income tax paid	1,558	1,516	1	130
Other movements	138	86	1	(10)
	(861)	(365)	(436)	(185)
Assets	181	252	84	119
Liabilities	(1,042)	(617)	(520)	(304)
As at 31 December	(861)	(365)	(436)	(185)

Other movements include current tax amounts relating to acquisitions, disposals and exchange gains and losses.

Deferred tax assets and liabilities

The deferred tax amounts on the balance sheet were as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Barclays Group US Inc. tax group (BGUS)	1,449	1,160	-	-
US Branch of Barclays Bank PLC (US Branch)	1,362	953	1,362	978
UK Group relief group	1,171	532	1,151	392
Spanish tax group	353	611	66	239
Other	472	303	157	45
Deferred tax asset	4,807	3,559	2,736	1,654
Deferred tax liability	(348)	(341)	(176)	(69)
Net deferred tax	4,459	3,218	2,560	1,585

US deferred tax assets in BGUS and the US Branch

The deferred tax asset in BGUS of £1,449m (2012: £1,160m) and the US Branch of £1,362m (2012: £953m) includes amounts relating to tax losses of £156m (2012: £135m) and £408m (2012: £834m) respectively, which first arose in 2007. In accordance with US tax rules tax losses can be carried forward and offset against profits for a period of 20 years and therefore any unused tax losses may begin to expire in 2028. The remaining balance primarily relates to temporary differences which are not time limited. The US Branch deferred tax asset is stated net of a measurement for UK tax because Barclays Bank PLC is subject to UK tax on the profits of its non-UK branches.

BGUS returned to profitability in 2012, primarily driven by Barclays Capital Inc., its US broker dealer, with tax losses expected to be fully utilised by 2015. A 20% reduction in forecasted profit would not extend the recovery period. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

The tax losses in the US Branch are projected to be fully utilised by 2017, based on profit forecasts covering the period from 2014 to 2018. A 20% reduction in forecasted profit would extend the recovery period by 1 year to 2018. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

UK Group relief group deferred tax asset

The deferred tax asset in the UK Group relief group of £1,171m (2012: £532m) includes £499m (2012: £342m) relating to tax losses. Tax losses can be carried forward indefinitely in the UK. The remaining balance relates to other temporary differences. Based on profit forecasts, it is probable that there will be sufficient future taxable profits available against which the temporary differences and losses will be utilised.

Notes to the financial statements

Performance

Spain deferred tax asset

A change in Spanish law in December 2013 resulted in the protection of certain deferred tax assets, mainly relating to pensions and impairments, whilst the remaining deferred tax assets (that are not protected by the change in law) continue to be reliant on future profits. Based on the current assessment of business forecasts there is insufficient evidence that future profits will be available to recover unprotected deferred tax assets for accounting purposes. As such only the protected deferred tax assets continue to be recognised resulting in a write down of £440m.

Other deferred tax assets

The deferred tax asset of £472m (2012: £303m) in other entities includes £172m (2012: £55m) relating to tax losses carried forward. Entities which have suffered a loss in either the current or prior year have a total deferred tax asset of £114m (2012: £135m) relating to tax losses carried forward and temporary differences. Recognition is based on profit forecasts which indicate that it is probable that the entities will have future taxable profits against which the losses and temporary differences can be utilised.

The table below shows movements on deferred tax assets and liabilities during the year. The amounts are different from those disclosed on the balance sheet as they are presented before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

The Group	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Retirement benefit obligations £m	Loan impairment allowance £m	Other provisions £m	Tax losses carried forward £m	Share based payments and deferred compensation £m	Other £m	Total £m
Assets	158	61	53	542	457	105	1,636	858	1,186	5,056
Liabilities	(225)	(67)	(714)	(1)	-	-	-	-	(831)	(1,838)
At 1 January 2013	(67)	(6)	(661)	541	457	105	1,636	858	355	3,218
Income statement	904	(12)	-	(66)	(74)	270	(400)	(45)	33	610
Other comprehensive income	-	(17)	571	(5)	-	-	122	(33)	(1)	637
Other movements	(73)	27	8	11	(7)	(15)	(123)	(18)	184	(6)
	764	(8)	(82)	481	376	360	1,235	762	571	4,459
Assets	1,525	53	5	490	376	360	1,235	762	1,103	5,909
Liabilities	(761)	(61)	(87)	(9)	-	-	-	-	(532)	(1,450)
At 31 December 2013	764	(8)	(82)	481	376	360	1,235	762	571	4,459
Assets	254	186	-	403	431	261	1,493	506	1,285	4,819
Liabilities	(404)	(65)	(489)	(3)	-	-	-	-	(1,096)	(2,057)
Effect of the adoption of IFRS 10 on assets	-	-	-	-	-	-	-	-	282	282
At 1 January 2012	(150)	121	(489)	400	431	261	1,493	506	471	3,044
Income statement	60	(49)	(30)	(185)	86	(134)	130	401	(124)	155
Other comprehensive income	-	(67)	(146)	321	-	-	-	(12)	(6)	90
Other movements	23	(11)	4	5	(60)	(22)	13	(37)	14	(71)
	(67)	(6)	(661)	541	457	105	1,636	858	355	3,218
Assets	158	61	53	542	457	105	1,636	858	1,186	5,056
Liabilities	(225)	(67)	(714)	(1)	-	-	-	-	(831)	(1,838)
At 31 December 2012	(67)	(6)	(661)	541	457	105	1,636	858	355	3,218

Notes to the financial statements

Performance

The Bank	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Retirement benefit obligations £m	Loan impairment allowance £m	Other provisions £m	Tax losses carried forward £m	Share based payments and deferred compensation £m	Other £m	Total £m
Assets	89	11	54	416	216	22	1,355	105	305	2,573
Liabilities	(64)	(28)	(644)	-	-	-	-	-	(252)	(988)
At 1 January 2013	25	(17)	(590)	416	216	22	1,355	105	53	1,585
Income statement	844	2	-	(46)	(51)	13	(245)	(31)	(151)	335
Other comprehensive income	-	-	523	31	-	-	122	(6)	(4)	666
Other movements	(72)	1	-	(1)	(3)	10	(259)	(4)	302	(26)
	797	(14)	(67)	400	162	45	973	64	200	2,560
Assets	1,462	8	5	412	162	45	973	64	346	3,477
Liabilities	(665)	(22)	(72)	(12)	-	-	-	-	(146)	(917)
At 31 December 2013	797	(14)	(67)	400	162	45	973	64	200	2,560
Assets	77	-	-	318	270	49	1,057	66	139	1,976
Liabilities	-	(6)	(458)	15	-	-	-	-	(324)	(773)
Effect of the adoption of IFRS 10 on assets	-	-	-	-	-	-	-	-	-	-
At 1 January 2012	77	(6)	(458)	333	270	49	1,057	66	(185)	1,203
Income statement	(41)	(27)	-	(195)	(32)	(27)	287	39	254	258
Other comprehensive income	-	12	(132)	269	-	-	-	14	(4)	159
Other movements	(11)	4	-	9	(22)	-	11	(14)	(12)	(35)
	25	(17)	(590)	416	216	22	1,355	105	53	1,585
Assets	89	11	54	416	216	22	1,355	105	305	2,573
Liabilities	(64)	(28)	(644)	-	-	-	-	-	(252)	(988)
At 31 December 2012	25	(17)	(590)	416	216	22	1,355	105	53	1,585

The increase in the net deferred tax asset in respect of fixed asset timing differences was primarily due to an election for US tax purposes to capitalise costs associated with certain fixed assets. Other movements include deferred tax amounts relating to acquisitions, disposals and exchange gains and losses.

The amount of deferred tax liability expected to be settled after more than 12 months for The Group is £916m (2012: £1,714m) and for The Bank is £776m (2012: £922m). The amount of deferred tax asset expected to be recovered after more than 12 months for The Group is £4,943m (2012: £2,990m) and for The Bank is £3,024m (2012: £1,323m). These amounts are before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax

For The Group, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £1,096m (2012: £28m), gross tax losses of £10,897m (2012: £7,295m) which includes capital losses of £3,465m (2012: £3,358m), and unused tax credits of £245m (2012: £155m). Tax losses of £245m (2012: £3m) expire within 5 years, £93m (2012: £83m) expire within 6 to 10 years, £1,043m (2012: £5m) expire within 11 to 20 years and £9,516m (2012: £7,204m) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which The Group can utilise benefits.

For The Bank, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £483m (2012: £nil), gross tax losses of £4,231m (2012: £2,757m) which includes capital losses of £3,144m (2012: £2,733m), and unused tax credits of £15m (2012: £150m). Tax losses of £111m (2012: £nil) expire within 5 years, £nil (2012: £nil) expire within 6 to 10 years, £940m (2012: £nil) expire within 11 to 20 years and £3,179m (2012: £2,757m) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which The Bank can utilise benefits.

Deferred tax is not recognised in respect of The Group's investments in subsidiaries and branches where remittance is not contemplated and for those associates and interests in joint ventures where it has been determined that no additional tax will arise. The aggregate amount of temporary differences for which deferred tax liabilities have not been recognised is £534m (2012: £836m).

Notes to the financial statements

Performance

Critical accounting estimates and judgements

The Group is subject to income taxes in numerous jurisdictions and the calculation of The Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open tax returns with various tax authorities to whom we are in active dialogue. Liabilities relating to these open and judgemental matters are based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. These risks are managed in accordance with The Group's Tax Risk Framework.

Deferred tax assets have been recognised based on business profit forecasts. Further detail on the recognition of deferred tax assets is provided in the deferred tax assets and liabilities section of this tax note.

11 Dividends on Ordinary Shares

Ordinary dividends were paid to enable Barclays PLC to fund its dividend to shareholders.

The 2013 financial statements include 2013 interim dividends of 15p per ordinary share (2012: 15p) and the final dividend declared in relation to 2012 resulting in total dividends per share of 31p (2012: 30p) paid during the year. Interim dividends of £361m (2012: £352m) and a final dividend declared in relation to 2012 of £373m (2012: £344m) were paid during the year.

Dividends paid on the 4.75% €100 preference shares amounted to £412.32 per share (2012: £399.40). Dividends paid on the 4.875% €100 preference shares amounted to £410.72 per share (2012: £394.33). Dividends paid on the 6.0% £100 preference shares amounted to £600.00 per share (2012: £600.00). Dividends paid on the 6.278% US\$100 preference shares amounted to £391.96 per share (2012: £396.43). Dividends paid on the 6.625% US\$0.25 preference shares amounted to £1.06 per share (2012: £1.05). Dividends paid on the 7.1% US\$0.25 preference shares amounted to £1.13 per share (2012: £1.12). Dividends paid on the 7.75% US\$0.25 preference shares amounted to £1.24 per share (2012: £1.22). Dividends paid on the 8.125% US\$0.25 preference shares amounted to £1.30 per share (2012: £1.28).

Dividends paid on preference shares amounted to £471m (2012: £465m). Dividends paid on other equity instruments amounted to £4m (2012: £4m).

Notes to the financial statements

Assets and liabilities held at fair value

Assets and liabilities held at fair value

This section presents information regarding assets and liabilities The Group holds and recognises at fair value. Fair value refers to the price that would be received to sell an asset or the price that would be paid to transfer a liability in an arms length transaction with a willing counterparty which may be an observable market price or, where there is no quoted price for the instrument, may be an estimated price based on available market data. Detail regarding The Group's approach to managing market risk can be found on pages 94 to 98.

12 Trading portfolio

Accounting for trading portfolio assets and liabilities

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value taken to the income statement net trading income (Note 5).

	The Group 2013 £m	2012 £m	The Bank 2013 £m	2012 £m
Debt securities and other eligible bills	84,580	116,307	54,402	64,827
Equity securities	42,659	24,519	6,077	4,503
Traded loans	1,647	2,410	1,647	2,393
Commodities	4,203	3,116	4,086	2,996
Trading portfolio assets	133,089	146,352	66,212	74,719
Debt securities and other eligible bills	(40,445)	(36,742)	(26,084)	(26,968)
Equity Securities	(12,947)	(7,979)	(2,837)	(3,067)
Commodities	(72)	(73)	(69)	(70)
Trading portfolio liabilities	(53,464)	(44,794)	(28,990)	(30,105)

13 Financial assets designated at fair value

Accounting for financial assets designated at fair value

In accordance with IAS 39, financial assets may be designated at fair value, with gains and losses taken to the income statement in net trading income (Note 5) and net investment income (Note 6). The Group has the ability to make the fair value designation when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by The Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 14).

	The Group 2013 £m	2012 £m	The Bank 2013 £m	2012 £m
Loans and advances	18,695	21,996	18,338	21,065
Debt securities	842	6,975	58,059	56,500
Equity securities	11,824	9,017	28	45
Reverse repurchase agreements	5,323	6,034	3,709	3,602
Customers' assets held under investment contracts	1,606	1,378	-	-
Other financial assets	678	1,229	487	1,025
Financial assets designated at fair value	38,968	46,629	80,621	82,237

The total portfolio of linked liabilities to customers under investment contracts also includes £0.1bn (2012: £0.2bn) of cash and bank balances included within cash and balances at central banks. The carrying value of the total portfolio assets equals the carrying value of the liabilities to customers under investment contracts as shown in Note 16. Any change in the value of the assets results in an equal but opposite change in the value of the amounts due to the policyholders. Therefore, The Group is not exposed to the financial risks inherent in the investments.

Notes to the financial statements

Assets and liabilities held at fair value

Credit risk of loans and advances designated at fair value and related credit derivatives

The following table shows the maximum exposure to credit risk, the changes in fair value due to credit risk and the cumulative changes in fair value since initial recognition together with the amount by which related credit derivatives mitigate this risk:

	Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception		Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances designated at fair value, attributable to credit risk	18,695	21,996	95	178	(4,797)	(4,892)	18,338	21,065	20	175	(3,297)	(3,317)
Value mitigated by related credit derivatives	914	1,342	49	(6)	444	395	914	1,342	49	(6)	427	378

14 Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect The Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are discussed in the Risk management section on pages 286 to 345. Trading derivatives are managed within The Group's market risk management policies, which are outlined on pages 323 to 335.

The Group's exposure to credit risk arising from derivative contracts are outlined in the Credit Risk section on page 75.

Accounting for derivatives

The Group applies IAS 39. All derivative instruments are held at fair value through profit or loss, except for derivatives held for risk management purposes in an effective hedge relationship (see hedge accounting below). This includes terms included in a contract or other financial asset or liability (the host), which, had it been a standalone contract, would have had met the definition of a derivative. These are separated from the host and accounted for in the same way as a derivative.

Hedge accounting

The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions. Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, The Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value changes adjust the carrying value of the hedged asset or liability held at amortised cost.

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Notes to the financial statements

Assets and liabilities held at fair value

Hedges of net investments

The Group's net investments in foreign operations, including monetary items accounted for as part of the net investment, are hedged for foreign currency risks using both derivatives and foreign currency borrowings. Hedges of net investments are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is being recognised directly in other comprehensive income and the ineffective portion being recognised immediately in the income statement. The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation, or other reductions in The Group's investment in the operation.

Types of derivatives held

Foreign exchange derivatives

The Group's principal exchange rate related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Currency derivatives are primarily designated as hedges of the foreign currency risk of net investments in foreign operations.

Interest rate derivatives

The Group's principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers and investments in fixed rate debt securities held.

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency. A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Notes to the financial statements

Assets and liabilities held at fair value

Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options whose underlyings include mutual funds, hedge funds, indices and multi-asset portfolios.

Commodity derivatives

The Group's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

The Group's total derivative asset and liability position as reported on the balance sheet is as follows:

	The Group			The Bank		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Year ended 31 December 2013						
Total derivative assets/(liabilities) held for trading	41,494,363	321,750	(319,361)	39,019,755	335,011	(325,852)
Total derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	277,202	2,555	(1,133)
Derivative assets/(liabilities)	41,798,008	324,495	(320,634)	39,296,957	337,566	(326,985)
Year ended 31 December 2012						
Total derivative assets/(liabilities) held for trading	40,193,114	465,357	(459,587)	37,956,081	472,720	(463,468)
Total derivative assets/(liabilities) held for risk management	302,822	3,799	(3,134)	281,775	3,409	(2,853)
Derivative assets/(liabilities)	40,495,936	469,156	(462,721)	38,237,856	476,129	(466,321)

The fair value of derivative assets decreased by 31% to £324bn reflecting increases in the major interest rate forward curves and the impact of optimisation initiatives to reduce gross derivatives exposures. Further information on netting of derivative financial instruments is included within Note 18 Offsetting financial assets and financial liabilities.

Notes to the financial statements

Assets and liabilities held at fair value

The fair values and notional amounts of derivatives held for trading are set out in the following table:

Derivatives held for trading	The Group			The Bank		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Year ended 31 December 2013						
Foreign exchange derivatives						
Forward foreign exchange	2,482,144	25,504	(29,825)	2,478,116	25,432	(29,677)
Currency swaps	1,287,911	27,138	(27,855)	1,275,932	26,973	(27,659)
OTC options bought and sold	815,742	6,858	(6,977)	813,707	6,825	(6,946)
OTC derivatives	4,585,797	59,500	(64,657)	4,567,755	59,230	(64,282)
Foreign exchange derivatives cleared by central counterparty	3,368	-	-	3,368	-	-
Exchange traded futures and options – bought and sold	44,295	-	-	43,792	-	-
Foreign exchange derivatives	4,633,460	59,500	(64,657)	4,614,915	59,230	(64,282)
Interest rate derivatives						
Interest rate swaps	7,497,699	164,532	(151,499)	6,051,311	163,118	(149,749)
Forward rate agreements	601,123	750	(719)	454,890	550	(517)
OTC options bought and sold	3,909,340	49,827	(50,087)	3,907,163	49,807	(50,083)
OTC derivatives	12,008,162	215,109	(202,305)	10,413,364	213,475	(200,349)
Interest rate derivatives cleared by central counterparty	21,377,621	1,069	(955)	19,048,223	977	(899)
Exchange traded futures and options – bought and sold	962,133	-	-	930,630	-	-
Interest rate derivatives	34,347,916	216,178	(203,260)	30,392,217	214,452	(201,248)
Credit derivatives						
OTC swaps	1,270,020	22,082	(21,633)	1,206,143	21,823	(21,384)
Credit derivatives cleared by central counterparty	306,164	1	(1)	231,418	-	(1)
Credit derivatives	1,576,184	22,083	(21,634)	1,437,561	21,823	(21,385)
Equity and stock index derivatives						
OTC options bought and sold	76,145	7,880	(11,227)	73,212	7,867	(11,027)
Equity swaps and forwards	86,497	2,046	(3,455)	75,161	1,763	(2,339)
OTC derivatives	162,642	9,926	(14,682)	148,373	9,630	(13,366)
Exchange traded futures and options – bought and sold	332,438	3,423	(4,265)	113,980	-	(116)
Equity and stock index derivatives	495,080	13,349	(18,947)	262,353	9,630	(13,482)
Commodity derivatives						
OTC options bought and sold	62,564	1,527	(1,369)	62,234	1,519	(1,366)
Commodity swaps and forwards	141,287	8,570	(8,813)	141,199	8,567	(8,803)
OTC derivatives	203,851	10,097	(10,182)	203,433	10,086	(10,169)
Exchange traded futures and options – bought and sold	237,872	543	(681)	237,871	542	(681)
Commodity derivatives	441,723	10,640	(10,863)	441,304	10,628	(10,850)
Derivatives with subsidiaries	-	-	-	1,871,405	19,248	(14,605)
Derivative assets/(liabilities) held for trading	41,494,363	321,750	(319,361)	39,019,755	335,011	(325,852)
Total OTC derivatives held for trading						
Total derivatives cleared by central counterparty held for trading	21,687,153	1,070	(956)	19,283,009	977	(900)
Total Exchange Traded derivatives held for trading	1,576,738	3,966	(4,946)	1,326,273	542	(797)
Derivatives with subsidiaries held for trading	-	-	-	1,871,405	19,248	(14,605)
Derivative assets/(liabilities) held for trading	41,494,363	321,750	(319,361)	39,019,755	335,011	(325,852)

Notes to the financial statements

Assets and liabilities held at fair value

Derivatives held for trading	The Group			The Bank		
	Notional contract amount £m	Fair value Assets £m Liabilities £m		Notional contract amount £m	Fair value Assets £m Liabilities £m	
Year ended 31 December 2012						
Foreign exchange derivatives						
Forward foreign exchange	2,421,109	25,670	(26,665)	2,407,452	25,559	(26,528)
Currency swaps	1,277,523	28,007	(31,456)	1,253,007	27,786	(31,259)
OTC options bought and sold	604,777	5,581	(5,663)	603,022	5,542	(5,648)
OTC derivatives	4,303,409	59,258	(63,784)	4,263,481	58,887	(63,435)
Foreign exchange derivatives cleared by central counterparty	9,139	41	(37)	9,139	41	(37)
Exchange traded futures and options – bought and sold	111,189	-	-	111,045	-	-
Foreign exchange derivatives	4,423,737	59,299	(63,821)	4,383,665	58,928	(63,472)
Interest rate derivatives						
Interest rate swaps	6,676,588	264,838	(249,566)	5,414,040	262,596	(247,400)
Forward rate agreements	3,757,855	1,521	(1,483)	3,502,403	1,241	(1,159)
OTC options bought and sold	4,378,143	84,844	(85,517)	4,368,736	84,807	(85,430)
OTC derivatives	14,812,586	351,203	(336,566)	13,285,179	348,644	(333,989)
Interest rate derivatives cleared by central counterparty	17,103,792	172	(58)	15,935,724	168	(52)
Exchange traded futures and options – bought and sold	1,079,453	6	(1)	1,044,863	-	-
Interest rate derivatives	32,995,831	351,381	(336,625)	30,265,766	348,812	(334,041)
Credit derivatives						
OTC swaps	1,529,984	29,788	(29,198)	1,519,438	29,774	(29,190)
Credit derivatives cleared by central counterparty	238,196	9	(10)	222,802	-	-
Credit derivatives	1,768,180	29,797	(29,208)	1,742,240	29,774	(29,190)
Equity and stock index derivatives						
OTC options bought and sold	88,317	6,133	(9,403)	83,335	6,071	(9,120)
Equity swaps and forwards	74,098	1,762	(2,420)	62,004	1,539	(1,217)
OTC derivatives	162,415	7,895	(11,823)	145,339	7,610	(10,337)
Exchange traded futures and options – bought and sold	347,965	3,092	(3,192)	92,459	(11)	(128)
Equity and stock index derivatives	510,380	10,987	(15,015)	237,798	7,599	(10,465)
Commodity derivatives						
OTC options bought and sold	81,787	1,786	(1,987)	81,369	1,777	(1,980)
Commodity swaps and forwards	164,771	11,441	(12,315)	164,664	11,434	(12,306)
OTC derivatives	246,558	13,227	(14,302)	246,033	13,211	(14,286)
Exchange traded futures and options – bought and sold	248,428	666	(616)	248,428	664	(616)
Commodity derivatives	494,986	13,893	(14,918)	494,461	13,875	(14,902)
Derivatives with subsidiaries						
Derivative assets/(liabilities) held for trading	40,193,114	465,357	(459,587)	37,956,081	472,720	(463,468)
Total OTC derivatives held for trading	21,054,952	461,371	(455,673)	19,459,470	458,126	(451,237)
Total derivatives cleared by central counterparty held for trading	17,351,127	222	(105)	16,167,665	209	(89)
Total Exchange Traded derivatives held for trading	1,787,035	3,764	(3,809)	1,496,795	653	(744)
Derivatives with subsidiaries held for trading	-	-	-	832,151	13,732	(11,398)
Derivative assets/(liabilities) held for trading	40,193,114	465,357	(459,587)	37,956,081	472,720	(463,468)

Notes to the financial statements

Assets and liabilities held at fair value

The fair values and notional amounts of derivative instruments held for risk management are set out in the following table:

Derivatives held for risk management	Notional contract amount £m	The Group Fair value		Notional contract amount £m	The Bank Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Year ended 31 December 2013						
Derivatives designated as cash flow hedges						
Interest rate swaps	74,854	844	(484)	56,909	754	(455)
Forward foreign exchange	851	55	(16)	851	55	(16)
Interest rate derivatives cleared by central counterparty	85,104	-	-	85,104	-	-
Derivatives designated as cash flow hedges	160,809	899	(500)	142,864	809	(471)
Derivatives designated as fair value hedges						
Interest rate swaps	39,964	1,278	(752)	31,466	1,178	(641)
Interest rate derivatives cleared by central counterparty	83,495	-	-	83,495	-	-
Derivatives designated as fair value hedges	123,459	1,278	(752)	114,961	1,178	(641)
Derivatives designated as hedges of net investments						
Forward foreign exchange	19,377	568	(21)	19,377	568	(21)
Derivatives designated as hedges of net investment	19,377	568	(21)	19,377	568	(21)
Derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	277,202	2,555	(1,133)
Total OTC derivatives held for risk management	135,046	2,745	(1,273)	108,603	2,555	(1,133)
Total derivatives cleared by central counterparty held for risk management	168,599	-	-	168,599	-	-
Derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	277,202	2,555	(1,133)
Year ended 31 December 2012						
Derivatives designated as cash flow hedges						
Interest rate swaps	97,935	2,043	(1,094)	85,467	1,767	(1,090)
Forward foreign exchange	148	-	(3)	148	-	(3)
Interest rate derivatives cleared by central counterparty	79,039	-	-	79,039	-	-
Derivatives designated as cash flow hedges	177,122	2,043	(1,097)	164,654	1,767	(1,093)
Derivatives designated as fair value hedges						
Interest rate swaps	44,031	1,576	(1,984)	35,451	1,462	(1,707)
Interest rate derivatives cleared by central counterparty	64,209	-	-	64,210	-	-
Derivatives designated as fair value hedges	108,240	1,576	(1,984)	99,661	1,462	(1,707)
Derivatives designated as hedges of net investments						
Forward foreign exchange	17,460	180	(53)	17,460	180	(53)
Derivatives designated as hedges of net investment	17,460	180	(53)	17,460	180	(53)
Derivative assets/(liabilities) held for risk management	302,822	3,799	(3,134)	281,775	3,409	(2,853)
Total OTC derivatives held for risk management	159,574	3,799	(3,134)	138,526	3,409	(2,853)
Total derivatives cleared by central counterparty held for risk management	143,248	-	-	143,249	-	-
Derivative assets/(liabilities) held for risk management	302,822	3,799	(3,134)	281,775	3,409	(2,853)

Notes to the financial statements

Assets and liabilities held at fair value

The Group has hedged the following forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
2013							
The Group							
Forecast receivable cash flows	6,438	367	500	904	1,126	1,135	2,406
Forecast payable cash flows	1,095	231	128	701	12	14	9
The Bank							
Forecast receivable cash flows	6,294	268	487	880	1,122	1,134	2,403
Forecast payable cash flows	1,028	221	111	696	-	-	-
2012							
The Group							
Forecast receivable cash flows	2,417	345	333	353	354	350	682
Forecast payable cash flows	54	31	18	4	-	1	-
The Bank							
Forecast receivable cash flows	2,104	278	275	289	316	313	633
Forecast payable cash flows	51	29	18	4	-	-	-

Forecast receivable cash flows on floating rate assets have increased year on year due to significant increases in forward interest rate curves.

The maximum length of time over which The Group hedges exposure to the variability in future cash flows for forecast transactions, excluding those forecast transactions related to the payment of variable interest on existing financial instruments is 10 years (2012: 9 years), and for The Bank, 10 years (2012: 9 years).

Amounts recognised in net interest income

	The Group £m	The Bank £m
Year ended 31 December 2013		
(Losses) on the hedged items attributable to the hedged risk	(591)	(512)
Gains on the hedging instruments	773	662
Fair value ineffectiveness	182	150
Cash flow hedging ineffectiveness	(76)	(62)
Year ended 31 December 2012		
Fair value hedging:		
Losses on the hedged items attributable to the hedged risk	(74)	36
(Losses)/gains on the hedging instruments	114	(4)
Fair value ineffectiveness	40	32
Cash flow hedging ineffectiveness	30	48

All gains and losses on hedging derivatives relating to forecast transactions which are no longer expected to occur have been recycled to the income statement.

Gains and losses transferred from the cash flow hedging reserve for The Group in the current year to interest income was a £66m gain (2012: £97m gain); interest expense a £554m gain (2012: £571m gain); net trading income a £44m loss (2012: £48m loss); administration and general expenses a £5m loss (2012: £1m gain); and taxation a £62m loss (2012: £nil); and for The Bank, interest income was £nil (2012: £14m gain); interest expense a £553m gain (2012: £574m gain); net trading income a £44m loss (2012: £48m loss); administration and general expenses £nil (2012: £nil); and taxation £nil (2012: £nil).

Notes to the financial statements

Assets and liabilities held at fair value

15 Available for sale financial assets

Accounting for available for sale financial assets

Available for sale financial assets are held at fair value with gains and losses being included in other comprehensive income. The Group uses this classification for assets that are not derivatives and are not held for trading purposes or otherwise designated at fair value through profit or loss, or at amortised cost. Dividends and interest (calculated using the effective interest method) are recognised in the income statement in net interest income (Note 3) or, net investment income (Note 6). On disposal, the cumulative gain or loss recognised in other comprehensive income is also included in net investment income.

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Debt securities and other eligible bills	91,298	74,671	82,052	61,554
Equity securities	490	462	220	199
Available for sale financial investments	91,788	75,133	82,272	61,753

Critical accounting estimates and judgements

Approximately \$4.3bn (£2.6bn) of the assets acquired as part of the 2008 acquisition of the North American business of Lehman Brothers had not been received by 31 December 2013. Approximately \$2.7bn (£1.6bn) of this amount was recognised as part of the acquisition accounting and is included as an available for sale investment on the balance sheet. As discussed in Note 29, Barclays entitlement to these assets is the subject of legal proceedings between the SIPA Trustee for Lehman Brothers Inc. and Barclays. As such, there continues to be significant judgement involved in the valuation of this asset and uncertainty relating to the outcome of ongoing appeals. The Group takes the view that the effective provision of US\$1.6bn (£1.0bn) that is reflected in its estimate of fair value is appropriate. The valuation of this asset will be kept under review as legal proceedings progress.

16 Financial liabilities designated at fair value

Accounting for liabilities designated at fair value through profit and loss

In accordance with IAS 39, financial liabilities may be designated at fair value, with gains and losses taken to the income statement within net trading income (Note 5) and net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by The Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 14).

	The Group 2013		The Bank 2013		The Group 2012		The Bank 2012	
	Fair Value £m	Contractual amount due on maturity £m	Fair Value £m	Contractual amount due on maturity £m	Fair Value £m	Contractual amount due on maturity £m	Fair Value £m	Contractual amount due on maturity £m
Debt securities	49,244	52,306	65,949	70,557	57,878	59,754	75,840	78,385
Deposits	8,071	9,161	6,987	8,000	11,411	13,064	9,360	10,247
Liabilities to customers under investment contracts	1,705	-	-	-	1,542	-	-	-
Repurchase agreements at fair value	5,306	5,331	4,979	5,003	6,020	6,038	6,020	6,038
Other financial liabilities	470	470	11	11	1,710	1,710	156	156
Financial liabilities designated at fair value	64,796	67,268	77,926	83,570	78,561	80,566	91,376	94,826

The cumulative own credit net loss that has been recognised is £1,199m at 31 December 2013 (2012: £979m loss).

Notes to the financial statements

Assets and liabilities held at fair value

17 Fair value of assets and liabilities

Accounting for financial assets and liabilities – fair values

The Group applies IAS 39 – Financial Instruments: Recognition and Measurement. All financial instruments are initially recognised at fair value on the date of recognition and, depending on the classification of the asset, may continue to be held at fair value either through profit or loss or other comprehensive income. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of The Group's financial assets and liabilities, especially derivatives, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities held at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Barclays issued bonds or credit default swaps. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of unobservable inputs, the difference between the model valuation and the initial transaction price ('Day One profit') is recognised in profit or loss either on a straight-line basis over the term of the transaction; or over the period until all model inputs will become observable where appropriate; or released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

The sensitivity of valuations used in the financial statements to reasonably possible changes in significant unobservable inputs is shown on pages 200 – 206.

Valuation

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

Valuation technique using significant unobservable inputs – Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

Notes to the financial statements

Assets and liabilities held at fair value

The following tables show The Group's and The Bank's assets and liabilities that are held at fair value disaggregated by valuation technique (fair value hierarchy) and balance sheet classification:

	Valuation technique using			Total £m
	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	
The Group				
As at 31 December 2013				
Trading portfolio assets	54,363	72,305	6,421	133,089
Financial assets designated at fair value	11,188	9,010	18,770	38,968
Derivative financial assets	3,353	316,129	5,013	324,495
Available for sale investments	36,082	53,561	2,145	91,788
Investment property	-	-	451	451
Non current assets held for sale	-	-	114	114
Total assets	104,986	451,005	32,914	588,905
Trading portfolio liabilities	(29,450)	(24,014)	-	(53,464)
Financial liabilities designated at fair value	(98)	(63,058)	(1,640)	(64,796)
Derivative financial liabilities	(3,952)	(312,363)	(4,319)	(320,634)
Total Liabilities	(33,500)	(399,435)	(5,959)	(438,894)
As at 31 December 2012				
Trading portfolio assets	51,639	86,199	8,514	146,352
Financial assets designated at fair value	14,518	26,025	6,086	46,629
Derivative financial assets	2,863	460,076	6,217	469,156
Available for sale investments	28,973	43,280	2,880	75,133
Investment property	-	-	1,686	1,686
Non current assets held for sale	-	-	-	-
Total assets	97,993	615,580	25,383	738,956
Trading portfolio liabilities	(20,294)	(24,498)	(2)	(44,794)
Financial liabilities designated at fair value	(182)	(76,024)	(2,355)	(78,561)
Derivative financial liabilities	(2,666)	(455,068)	(4,987)	(462,721)
Total Liabilities	(23,142)	(555,590)	(7,344)	(586,076)

Notes to the financial statements

Assets and liabilities held at fair value

	Valuation technique using			Total £m
	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	
The Bank				
As at 31 December 2013				
Trading portfolio assets	16,165	44,721	5,326	66,212
Financial assets designated at fair value	30	63,727	16,864	80,621
Derivative financial assets	9	332,612	4,945	337,566
Available for sale investments:	34,577	45,874	1,821	82,272
Investment property	-	-	68	68
Total assets	50,781	486,934	29,024	566,739
Trading portfolio liabilities	(11,938)	(17,052)	-	(28,990)
Financial liabilities designated at fair value	(96)	(76,669)	(1,161)	(77,926)
Derivative financial liabilities	(26)	(322,713)	(4,246)	(326,985)
Total Liabilities	(12,060)	(416,434)	(5,407)	(433,901)
As at 31 December 2012				
Trading portfolio assets	19,054	49,554	6,111	74,719
Financial assets designated at fair value	41	78,600	3,596	82,237
Derivative financial assets	4	469,938	6,187	476,129
Available for sale investments	20,617	39,042	2,094	61,753
Total assets	39,716	637,134	17,988	694,838
Trading portfolio liabilities	(12,423)	(17,680)	(2)	(30,105)
Financial liabilities designated at fair value	-	(89,770)	(1,606)	(91,376)
Derivative financial liabilities	(11)	(461,430)	(4,880)	(466,321)
Total Liabilities	(12,434)	(568,880)	(6,488)	(587,802)

There are no assets or liabilities measured at fair value on a non-recurring basis.

Included in financial assets designated at fair value is the Education, Social Housing and Local Authority (ESHLA) loan portfolio of £15.6bn (2012: £17.6bn). This was transferred from Level 2 to Level 3 following reassessment of the significance of unobservable loan spreads on valuation. The valuation of the ESHLA portfolio continues to be based on internally modelled spreads. Valuation uncertainty arises mainly from the long dated nature of the portfolio, the lack of active secondary market in the loans and the lack of observable loan spreads.

Notes to the financial statements

Assets and liabilities held at fair value

The following tables show The Group's and The Bank's assets and liabilities that are held at fair value disaggregated by valuation technique (fair value hierarchy) and product type:

Assets and liabilities held at fair value by product type

The Group	Assets			Liabilities		
	Valuation technique using					
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	£m	£m	£m	£m	£m	£m
As at 31 December 2013						
Interest rate derivatives	-	217,324	1,031	-	(203,466)	(1,046)
Foreign exchange derivatives	-	59,951	117	-	(64,592)	(86)
Credit derivatives ^a	-	19,883	2,200	(26)	(20,828)	(780)
Equity derivatives	3,353	8,730	1,266	(3,926)	(13,154)	(1,867)
Commodity derivatives	-	10,241	399	-	(10,323)	(540)
Government and government sponsored debt	53,550	63,647	220	(17,833)	(17,758)	-
Corporate debt	1,005	34,247	3,040	(63)	(5,247)	(12)
Certificates of deposit, commercial paper and other money market instruments	-	1,493	-	(96)	(5,303)	(409)
Reverse repurchase and repurchase agreements	-	5,323	-	-	(5,306)	-
Non asset backed loans	-	2,493	16,132	-	-	-
Asset backed securities	-	15,141	2,112	-	(105)	-
Commercial real estate loans	-	-	1,198	-	-	-
Issued debt	-	54	1	-	(48,734)	(1,164)
Equity cash products	45,547	397	168	(11,554)	(704)	-
Funds and fund-linked products	-	8,509	550	-	(3,369)	(54)
Physical commodities	1,155	3,048	-	-	(72)	-
Investment properties	-	-	451	-	-	-
Other ^b	376	524	4,029	(2)	(474)	(1)
Total	104,986	451,005	32,914	(33,500)	(399,435)	(5,959)
As at 31 December 2012						
Interest rate derivatives	-	353,647	1,353	-	(338,502)	(1,204)
Foreign exchange derivatives	1	59,275	203	-	(63,630)	(244)
Credit derivatives ^a	-	26,758	3,039	-	(28,002)	(1,206)
Equity derivatives	2,851	6,281	1,092	(2,626)	(10,425)	(1,702)
Commodity derivatives	12	13,984	660	(5)	(14,632)	(543)
Government and government sponsored debt	65,598	60,336	367	(13,098)	(20,185)	-
Corporate debt	844	28,640	3,339	(130)	(3,312)	(36)
Certificates of deposit, commercial paper and other money market instruments	203	5,443	-	(5)	(7,840)	(760)
Reverse repurchase and repurchase agreements	-	6,034	-	-	(6,020)	-
Non asset backed loans	21	19,666	2,365	(2)	(3)	-
Asset backed securities	17	26,787	4,106	(2)	(831)	-
Commercial real estate loans	-	-	1,798	-	-	-
Issued debt	-	-	-	-	(57,303)	(1,439)
Equity cash products	27,016	2,855	145	(7,236)	(1,111)	-
Funds and fund-linked products	737	2,447	754	(38)	(2,000)	(122)
Physical commodities	678	2,438	-	-	(73)	-
Investment properties	-	-	1,686	-	-	-
Other ^b	15	989	4,476	-	(1,721)	(88)
Total	97,993	615,580	25,383	(23,142)	(555,590)	(7,344)

Note

a Credit derivatives includes derivative exposure to Monoline insurers.

b Other primarily includes receivables resulting from the acquisition of the North American businesses of Lehman Brothers, asset-backed loans, private equity investments and non current assets held for sale.

Notes to the financial statements

Assets and liabilities held at fair value

Assets and liabilities reclassified between Level 1 and Level 2

US Treasuries and new issuances of certain G7 government bonds are actively quoted and traded through electronic trading platforms, supporting classification as Level 1. When there is a new issuance of those G7 government bonds, any previous issuances held on the balance sheet as Level 1 will be transferred into Level 2 to reflect a decrease in trading activity. As a result of new issuances during the year, £19.6m of government and government sponsored debt were transferred from Level 1 into Level 2. Remaining transfers from level 1 to level 2 relate to the transfer of £14.1m of corporate debt as a result of a reassessment of available pricing information causing the classification to be reconsidered as level 2.

Transfers have been reflected as if they had taken place at the beginning of the year.

Level 3 movement analysis

The following table summarises the movements in the Level 3 balance during the year. The table shows gains and losses and includes amounts for all assets and liabilities transferred to and from Level 3 during the year. Transfers have been reflected as if they had taken place at the beginning of the year.

Analysis of movements in level 3 assets and liabilities

The Group	As at 1 January 2013 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2013 £m
						Trading income £m	Other income £m		In £m	Out £m	
Government and government sponsored debt	321	135	(199)	82	(23)	(3)	(11)	-	-	(141)	161
Corporate debt	3,136	84	(83)	-	-	(46)	-	-	-	(52)	3,039
Asset backed securities	3,614	2,773	(4,729)	-	(389)	831	-	-	50	(39)	2,111
Non asset backed loans	344	91	(281)	35	(37)	16	-	-	8	-	176
Funds and fund linked products	685	-	(64)	-	-	(95)	-	-	-	(32)	494
Other	414	46	(42)	-	(44)	44	-	-	34	(12)	440
Trading portfolio assets	8,514	3,129	(5,398)	117	(493)	747	(11)	-	92	(276)	6,421
Commercial real estate loans	1,798	1,542	(1,717)	-	(526)	156	2	-	2	(59)	1,198
Non asset backed loans	2,021	390	(1)	-	(208)	(1,441)	(107)	-	15,317	(15)	15,956
Asset backed loans	564	595	(748)	-	(23)	106	-	-	-	(119)	375
Private equity investments	1,350	161	(134)	-	(87)	50	(139)	-	18	(51)	1,168
Other	353	11	(237)	-	(28)	(36)	(1)	-	105	(94)	73
Financial assets designated at fair value	6,086	2,699	(2,837)	-	(872)	(1,165)	(245)	-	15,442	(338)	18,770
Asset backed securities	492	-	(521)	-	(29)	(1)	30	30	-	-	1
Government and government sponsored debt	46	13	-	-	(1)	-	1	-	-	-	59
Other	2,342	25	(77)	-	(471)	1	255	2	36	(28)	2,085
Available for sale investments	2,880	38	(598)	-	(501)	-	286	32	36	(28)	2,145
Investment property	1,686	151	(1,210)	-	-	17	(31)	-	-	(162)	451
Non current assets held for sale	-	-	-	-	-	-	-	-	114	-	114

Notes to the financial statements

Assets and liabilities held at fair value

17 Fair value assets and liabilities continued

Level 3 movement continued

Analysis of movements in level 3 assets and liabilities

	As at 1 January 2013 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2013 £m
						Trading income £m	Other income £m		In £m	Out £m	
Trading portfolio liabilities	(2)	(1)	-	-	-	1	-	-	-	2	-
Certificates of deposit, commercial paper and other money market instruments	(760)	-	-	-	7	204	93	-	-	47	(409)
Issued debt	(1,439)	-	9	(67)	319	60	6	-	(205)	153	(1,164)
Other	(156)	(2)	1	-	(2)	(3)	3	-	-	92	(67)
Financial liabilities designated at fair value	(2,355)	(2)	10	(67)	324	261	102	-	(205)	292	(1,640)
Interest rate derivatives	149	(26)	(1)	-	31	262	2	-	(26)	(406)	(15)
Credit derivatives	1,776	95	(66)	(2)	54	(488)	(81)	-	(74)	206	1,420
Equity derivatives	(608)	301	(1)	(394)	(48)	151	2	-	(85)	81	(601)
Commodity derivatives	117	(57)	-	(44)	42	66	1	-	(146)	(120)	(141)
Foreign exchange derivatives	(40)	-	-	-	145	(44)	1	-	(10)	(21)	31
Other	(164)	-	-	-	-	-	-	-	-	164	-
Net derivative financial instruments^a	1,230	313	(68)	(440)	224	(53)	(75)	-	(341)	(96)	694
Total	18,039	6,327	(10,101)	(390)	(1,318)	(192)	26	32	15,138	(606)	26,955

Analysis of movements in level 3 assets and liabilities

The Group	As at 1 January 2012 £m	Effects of the adoption of IFRS 10 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2012 £m
							Trading income £m	Other income £m		In £m	Out £m	
Trading portfolio assets	9,204	1,093	3,443	(4,445)	-	(986)	476	(7)	-	242	(506)	8,514
Financial assets designated at fair value	8,679	143	2,972	(3,837)	-	(915)	(236)	(5)	-	167	(882)	6,086
Available for sale investments	2,873	-	50	(226)	-	(57)	(17)	-	(19)	461	(185)	2,880
Investment property	2,925	-	70	(1,289)	-	-	35	(55)	-	-	-	1,686
Trading portfolio liabilities	(6)	-	(1)	1	-	1	-	-	-	-	3	(2)
Financial liabilities designated at fair value	(3,136)	(136)	(8)	29	(289)	450	87	52	-	(295)	891	(2,355)
Net derivative financial instruments ^a	2,686	(9)	434	(138)	(354)	5	(1,438)	(109)	-	(189)	342	1,230
Total	23,225	1,091	6,960	(9,905)	(643)	(1,502)	(1,093)	(124)	(19)	386	(337)	18,039

Note

a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2013 totalled £5,013m (2012: £6,217m) and derivative financial liabilities totalled £4,319m (2012: £4,987m).

Notes to the financial statements

Assets and liabilities held at fair value

Assets and liabilities move between Level 2 and Level 3 primarily due to i) an increase or decrease in observable market activity related to an input or ii) a change in the significance of the unobservable input, with instruments classified as Level 3 if an unobservable input is deemed significant.

During 2013, transfers into Level 3 totalled £15.1bn primarily due to the remainder of the ESHLA loan portfolio amounting to £15.3bn, which was transferred from Level 2 to Level 3 following reassessment of the significance of unobservable loan spreads on valuation. Liabilities of £205m were also transferred from Level 2 to Level 3 mainly representing issued debt classified as financial liabilities designated at fair value. A further £(146)m of commodity derivatives were also transferred into Level 3 in line with observable market activity.

Transfers out of level 3 totalled £606m. This was primarily due to £141m of government and government sponsored debt held as trading portfolio assets and £119m of asset backed loans held as financial assets designated at fair value through profit and loss. Liabilities transferred out included £153m of issued debt and £47m of certificates of deposit, commercial paper and other money market instruments both designated as held at fair value through profit and loss. There were also transfers of £(406)m in interest rate derivatives offset by £205m in credit derivatives as a result of more observable valuation inputs.

Analysis of movements in level 3 assets and liabilities

	As at 1 January 2013 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2013 £m
						Trading income £m	Other income £m		In £m	Out £m	
The Bank											
Trading portfolio assets	6,111	396	(886)	117	(329)	247	-	-	79	(409)	5,326
Financial assets designated at fair value	3,596	2,468	(2,437)	-	(716)	(1,324)	3	-	15,291	(17)	16,864
Available for sale investments	2,094	16	(19)	-	(486)	3	213	(6)	8	(2)	1,821
Investment property	-	68	-	-	-	-	-	-	-	-	68
Trading portfolio liabilities	(2)	(1)	-	-	-	2	-	-	(1)	2	-
Financial liabilities designated at fair value	(1,606)	-	8	(64)	251	201	-	-	(187)	236	(1,161)
Net derivative financial instruments ^a	1,307	312	(66)	(442)	221	(64)	(80)	-	(326)	(163)	699
Total	11,500	3,259	(3,400)	(389)	(1,059)	(935)	136	(6)	14,864	(353)	23,617

Analysis of movements in level 3 assets and liabilities

	As at 1 January 2012 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2012 £m
						Trading income £m	Other income £m		In £m	Out £m	
The Bank											
Trading portfolio assets	8,254	1,326	(2,564)	-	(636)	53	-	-	49	(371)	6,111
Financial assets designated at fair value	4,589	2,637	(2,207)	-	(422)	(333)	(1)	-	88	(755)	3,596
Available for sale investments	2,119	21	(3)	-	(23)	(16)	(92)	34	54	-	2,094
Trading portfolio liabilities	(6)	(1)	1	-	1	2	-	-	1	-	(2)
Financial liabilities designated at fair value	(2,437)	(8)	23	(197)	334	69	(11)	-	891	(270)	(1,606)
Net derivative financial instruments ^a	2,888	354	(138)	(354)	(52)	(1,469)	(60)	-	325	(187)	1,307
Total	15,407	4,329	(4,888)	(551)	(798)	(1,694)	(164)	34	1,408	(1,583)	11,500

Note

a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2013 totalled £4,945m (2012: £6,187m) and derivative financial liabilities totalled £4,246m (2012: £4,880m).

Notes to the financial statements

Assets and liabilities held at fair value

Unrealised gains and losses on Level 3 assets and liabilities

The following table discloses the unrealised gains and losses recognised in the year arising on Level 3 assets and liabilities held at year end.

Unrealised gains and losses recognised during the period on Level 3 assets and liabilities held at period end

As at 31 December

The Group	2013				2012			
	Income statement		Other comprehensive income	Total	Income statement		Other comprehensive income	Total
	Trading income	Other income			Trading income	Other income		
£m	£m	£m	£m	£m	£m	£m	£m	
Trading portfolio assets	222	-	-	222	186	(7)	-	179
Financial assets designated at fair value	(1,276)	10	-	(1,266)	(174)	(2)	-	(176)
Available for sale assets	-	(5)	27	22	(3)	(11)	67	53
Investment property	(27)	(31)	-	(58)	14	(28)	-	(14)
Trading portfolio liabilities	-	-	-	-	(1)	-	-	(1)
Financial liabilities designated at fair value	74	-	-	74	39	63	-	102
Net derivative financial instruments	(411)	(75)	-	(486)	(1,747)	(61)	-	(1,808)
Total	(1,418)	(101)	27	(1,492)	(1,686)	(46)	67	(1,665)

Unrealised gains and losses recognised during the period on Level 3 assets and liabilities held at period end

As at 31 December

The Bank	2013				2012			
	Income statement		OCI	Total	Income statement		OCI	Total
	Trading income	Other income			Trading income	Other income		
£m	£m	£m	£m	£m	£m	£m	£m	
Trading portfolio assets	209	-	-	209	(90)	-	-	(90)
Financial assets designated at fair value	(1,377)	3	-	(1,374)	(246)	(1)	-	(247)
Available for sale assets	-	-	1	1	(3)	(1)	-	(4)
Trading portfolio liabilities	-	-	-	-	3	-	-	3
Financial liabilities designated at fair value	75	-	-	75	20	-	-	20
Net derivative financial instruments	(424)	(75)	-	(499)	(1,617)	(91)	-	(1,708)
Total	(1,517)	(72)	1	(1,588)	(1,933)	(93)	-	(2,026)

The decrease in trading income of £1,102m (The Bank: £1,131m) within financial assets designated at fair value is primarily driven by a trading loss on the ESHLA loan portfolio due to losses incurred on fixed rate loan portfolios as a result of an increase in interest rate forward curves. Trading income on net derivative financial instruments increased by £1,336m (The Bank: £1,193m) over the year mainly driven by more favourable returns on derivatives. Credit and monoline derivatives within the Structured Capital Portfolio Markets business resulted in an increase in trading income of £461m compared to prior year. Additionally, within rates trading, interest rate derivatives drove a £247m increase in trading income; whilst equity derivatives also had a positive variance of £235m over prior year.

Valuation techniques and sensitivity analysis

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historical data and the impact of using alternative models.

Sensitivities are dynamically calculated on a monthly basis. The calculation is based on range or spread data of a reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

The valuation techniques used for the main products that are not determined by reference to unadjusted quoted prices (Level 1), observability and sensitivity analysis for Level 3 are described below.

Interest rate derivatives

Description: These are derivatives linked to interest rates or inflation indices. This category includes futures, interest rate and inflation swaps, swaptions, caps, floors, inflation options, balance guaranteed swaps and other exotic interest rate derivatives.

Notes to the financial statements

Assets and liabilities held at fair value

Valuation: Interest rate derivative cash flows are valued using interest rate yield curves whereby observable market data is used to construct the term structure of forward rates. This is then used to project and discount future cash flows based on the parameters of the trade. Instruments with optionality are valued using volatilities implied from market observable inputs. Exotic interest rate derivatives are valued using industry standard and bespoke models based on observable and unobservable market parameter inputs. Input parameters include interest rates, volatilities, correlations and others as appropriate. Where unobservable, a parameter will be set with reference to an observable proxy. Inflation forward curves and interest rate yield curves are extrapolated beyond observable tenors.

Balance guaranteed swaps are valued using cash flow models that calculate fair value based on loss projections, prepayment, recovery and discount rates. These parameters are determined by reference to underlying asset performance, independent research, ABX indices, broker quotes, observable trades on similar securities and third party pricing sources. Prepayment is projected based on observing historic prepayment rates.

Observability: In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying. Certain correlation, convexity, long dated forwards and volatilities exposures are unobservable beyond liquid maturities. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Level 3 sensitivity: Sensitivity relating to unobservable valuation inputs is based on the dispersion of consensus data services where available, otherwise stress scenarios or historic data are used.

Foreign exchange derivatives

Description: These are derivatives linked to the foreign exchange (FX) market. This category includes FX forward contracts, FX swaps and FX options. The vast majority are traded as OTC derivatives.

Valuation: Derivatives are valued using industry standard and bespoke models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Observability: Certain correlations, long dated forwards and volatilities are unobservable beyond liquid maturities.

Level 3 sensitivity: Sensitivity relating to unobservable valuation inputs is primarily based on the dispersion of consensus data services.

Credit derivatives

Description: These are derivatives linked to the credit spread of a referenced entity, index or basket of referenced entities or a pool of referenced assets via securitisation. This category includes single name and index Credit Default Swaps (CDS), asset-backed CDS, synthetic Collateralised Debt Obligations (CDOs), and Nth-to-default basket swaps.

Valuation: CDS are valued using a market standard model that incorporates the credit curve as its principal input. Credit spreads are observed directly from broker data, third party vendors or priced to proxies. Where credit spreads are unobservable, they are determined with reference to recent transactions or proxied from bond spreads on observable trades of the same issuer or other similar entities. Synthetic CDOs are valued using a model that calculates fair value based on credit spreads, recovery rates, correlations and interest rates and is calibrated to the index tranche market.

Observability: CDS contracts referencing entities that are not actively traded are considered unobservable. The correlation input to synthetic CDO valuation is considered unobservable as it is proxied from the observable index tranche market. Where an asset-backed credit derivative does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity of valuations of the illiquid CDS portfolio is determined by applying a shift to each spread curve. The shift is based on the average range of pricing observed in the market for similar CDS. Synthetic CDO sensitivity is calculated using correlation levels derived from the range of contributors to a consensus bespoke service.

Commodity derivatives

Description: These products are exchange traded and OTC derivatives based on underlying commodities such as metals, crude oil and refined products, agricultural products, power and natural gas.

Valuation: The valuations of commodity swaps and options are determined using models incorporating discounting of cash flows and other industry standard modelling techniques. Valuation inputs include forward curves, volatilities implied from market observable inputs and correlations. Unobservable inputs are set with reference to similar observable products or by applying extrapolation techniques from the observable market.

Observability: Certain correlations, forward curves and volatilities for longer dated exposures are unobservable.

Level 3 sensitivity: Sensitivity is determined primarily by measuring historical variability over two years. Where historical data is unavailable or uncertainty is due to volumetric risk, sensitivity is measured by applying appropriate stress scenarios or using proxy bid-offer spread levels.

Notes to the financial statements

Assets and liabilities held at fair value

Equity derivatives

Description: These are derivatives linked to equity indices and single names. This category includes exchange traded and OTC equity derivatives including vanilla and exotic options.

Valuation: The valuations of OTC equity derivatives are determined using industry standard models. Input parameters include stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Observability: In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying.

Level 3 sensitivity: Sensitivity is estimated based on the dispersion of consensus data services either directly or through proxies.

Derivative exposure to monoline insurers

Description: These products are derivatives through which credit protection has been purchased on structured debt instruments (primarily CLOs) from monoline insurers.

Valuation: Given the bespoke nature of the CDS, the primary valuation input is the price of the cash instrument it protects.

Observability: Whilst the market value of the cash instrument underlying the CDS contract may be observable, its use in the valuation of CDS is considered unobservable due to the bespoke nature of the monoline CDS contracts.

Level 3 sensitivity: Due to the high degree of uncertainty, the sensitivity reflects the impact of writing down the credit protection element of fair value to zero.

Government and Government sponsored debt

Description: These are government bonds, supra sovereign bonds and agency bonds.

Valuation: Liquid government bonds actively traded through an exchange or clearing house are marked to the closing levels observed in these markets. Less liquid bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts.

Observability: Where an observable market price is not available, the bond is considered Level 3

Level 3 sensitivity: Sensitivity is calculated by using the range of observable proxy prices.

Corporate debt

Description: This primarily contains corporate bonds.

Valuation: Corporate bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts. In the absence of observable bond or CDS spreads for the respective issuer, similar reference assets or sector averages are applied as a proxy (the appropriateness of proxies being assessed based on issuer, coupon, maturity and industry).

Observability: Where an observable market price is not available, the security is considered Level 3.

Level 3 sensitivity: The sensitivity for the corporate bonds portfolio is determined by applying a shift to each underlying position driven by average ranges of external levels observed in the market for similar bonds

Certificates of Deposit, Commercial Paper and other money market instruments

Description: These are certificates of deposit, commercial paper and other money market instruments.

Valuation: Certificates of deposit and commercial paper are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts. In the absence of observable bond or CDS spreads for the respective issuer, similar reference assets or sector averages are applied as a proxy (the appropriateness of proxies being assessed based on issuer, coupon, maturity and industry).

Observability: Where an observable market price is not available, the instrument is considered Level 3.

Level 3 sensitivity: Sensitivity is calculated by using the range of observable proxy prices.

Notes to the financial statements

Assets and liabilities held at fair value

Repurchase agreements

Description: This product type is primarily made up of repurchase agreements that are held at fair value.

Valuation: Repurchase agreements are generally valued using industry standard modelling techniques including discounting of cash flows. The key valuation inputs are forward curves.

Observability: Repurchase agreement pricing is generally observable.

Level 3 sensitivity: There is no Level 3 sensitivity associated with repurchase agreements as inputs to valuation are observable.

Non asset backed loans

Description: This category is largely made up of fixed rate loans, such as the ESHLA portfolio, which are valued using models that discount expected future cash flows.

Valuation: Fixed rate loans are valued using models that calculate fair value based on observable interest rates and unobservable loan spreads. Unobservable loan spreads are modelled according to issuer credit quality.

Observability: Within this population, the unobservable input is the loan spread.

Level 3 sensitivity: The sensitivity for fixed rate loans is calculated by applying a shift to loan spreads.

Asset backed securities

Description: These are securities that are linked to the cash flows of a pool of referenced assets via securitisation. This category includes residential mortgage backed securities, commercial mortgage backed securities, asset backed securities, CDOs and CLOs.

Valuation: Where available, valuations are based on observable market prices which are sourced from broker quotes and inter-dealer prices. Otherwise, valuations are determined using industry standard discounted cash flow analysis that calculates the fair value based on valuation inputs such as constant default rate, conditional prepayment rate, loss given default and yield. These inputs are determined by reference to a number of sources including proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance.

Proxying to observed transactions, indices or research requires an assessment and comparison of the relevant securities' underlying attributes including collateral, tranche, vintage, underlying asset composition (historical losses, borrower characteristics, and loan attributes such as loan-to-value ratio and geographic concentration) and credit ratings (original and current).

Observability: Where an asset-backed product does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity analysis for asset-backed products is based on externally sourced pricing dispersion, defined at the position level.

Asset backed loans

Description: These are loans made to individual borrowers or originators in return for the expectation of repayment of both principal and interest in the future. This category includes loans backed by residential whole loans and residential real estate (property).

Valuation: Valuations are determined using industry standard discounted cash flow analysis that calculates the fair value based on inputs such as constant default rate, conditional prepayment rate, loss given default and yield. Valuations inputs are determined by reference to a number of sources including proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance.

Observability: Where an asset-backed loan does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity analysis for asset-backed loans is based on stressing the inputs to the discounted cash flow analysis.

Commercial Real Estate loans

Description: This portfolio includes loans that are secured by a range of commercial property types including retail, hotel, office, multi-family and industrial properties.

Valuation: Performing loans are valued using discounted cash flow analysis which considers the characteristics of the loan such as property type, geographic location, credit quality and property performance reviews in order to determine an appropriate credit spread. Where there is significant uncertainty regarding loan performance, valuation is based on independent third party appraisals or bids for the underlying properties. Independent third party appraisals are determined by discounted cash flow analysis. The key valuation inputs are yield and loss given default.

Observability: Since each commercial real estate loan is unique in nature and the secondary loan market is relatively illiquid, valuation inputs are generally considered unobservable.

Notes to the financial statements

Assets and liabilities held at fair value

Level 3 sensitivity: For performing loans, sensitivity is determined by stressing the credit spread for each loan. For loans which have significant uncertainty regarding loan performance, sensitivity is determined by either a range of bids or by stressing the inputs to independent third party appraisals.

Issued debt

Description: This category contains Barclays issued notes.

Valuation: Fair valued Barclays issued notes are valued using discounted cash flow techniques and industry standard models incorporating various observable input parameters depending on the terms of the instrument.

Observability: Barclays issued notes are generally observable. Structured notes are debt instruments containing embedded derivatives. Where either an input to the embedded derivative or the debt instrument is deemed unobservable and significant to the overall valuation of the note, the structured note is classified as Level 3.

Level 3 sensitivity: Sensitivity to the unobservable input in the embedded derivative is calculated in line with the method used for the derivative instrument concerned and incorporated within the derivative lines.

Equity cash products

Description: This category includes listed equities, Exchange Traded Funds (ETF) and preference shares.

Valuation: Valuation of equity cash products is primarily determined through market observable prices.

Observability: Prices are generally observed in the market. Where a price for an equity security is not available, the instrument is considered unobservable.

Level 3 sensitivity: Sensitivity relating to unobservable market prices is based on the dispersion of observable proxy prices.

Funds and fund linked products

Description: This category includes holdings in hedge funds, and funds of funds.

Valuation: In general, fund holdings are valued based on the latest available valuation received from the fund administrator. In the case of illiquid fund holdings the valuation will take account of all available information in relation to the underlying fund or collection of funds and may be adjusted relative to the performance of relevant index benchmarks.

Observability: Funds are deemed unobservable where the fund is either suspended, in wind-down, has a redemption restriction that severely affects liquidity, or where the latest net asset value from the fund administrators is older than the frequency dictated by the fund offering documents.

Level 3 sensitivity: Sensitivity is calculated on an individual fund basis using a loss based scenario approach which factors in the underlying assets of the specific fund and assumed recovery rates.

Private equity investments

Description: This category includes private equity investments.

Valuation: Private equity investments are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of a number of individual pricing benchmarks such as the prices of recent transactions in the same or similar entities, discounted cash flow analysis, and comparison with the earnings multiples of listed comparative companies. Full valuations are generally performed at least bi-annually, with the positions reviewed periodically for material events that might impact upon fair value. The valuation of unquoted equity instruments is subjective by nature. However, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time.

Observability: Unobservable inputs include earnings estimates, multiples of comparative companies, marketability discounts and discount rates.

Level 3 sensitivity: The relevant valuation models are each sensitive to a number of key assumptions, such as projected future earnings, comparator multiples, marketability discounts and discount rates. Valuation sensitivity is estimated by flexing such assumptions to reasonable alternative levels and determining the impact on the resulting valuation.

Physical commodities

Description: This category includes physical commodities such as metals and crude oil.

Valuation: The fair values of physical commodities are primarily determined through market observable prices.

Observability: Physical commodities are generally observable.

Level 3 sensitivity: There is no Level 3 sensitivity associated with physical commodities as inputs to valuation are observable.

Notes to the financial statements

Assets and liabilities held at fair value

Investment Property

Description: Investment property consists of commercial real estate property including most of the major property types retail, office, industrial and multi-family properties.

Valuation: Investment property is valued using competitive asset specific market bids. When bids are unavailable, valuations are determined by independent third party appraiser through a discounted cash flow analysis. The key inputs to the discounted cash flow valuation are capitalisation rates, yields, growth rate, and loss given default.

Observability: Since each investment property is unique in nature and the commercial real estate market is illiquid, valuation inputs are largely unobservable.

Level 3 sensitivity: For investment property, sensitivity is determined by a range of asset specific market bids or by stressing the inputs to the discounted cash flow analysis.

Other

Description: The receivables resulting from the acquisition of the North American businesses of Lehman Brothers is also included within 'Other'. For more details, refer to Note 29 Legal, competition and regulatory matters.

Level 3 sensitivity: No stress has been applied to the receivables relating to the Lehman acquisition (Note 15). The sensitivity inherent in the measurement of the receivables is akin to a litigation provision. Due to this, an upside and downside stress on a basis comparable with the other assets cannot be applied.

Complex Derivative Instruments

Valuation estimates made by counterparties with respect to complex derivative instruments, for the purpose of determining the amount of collateral to be posted, often differ, sometimes significantly, from Barclays own estimates. In almost all cases, Barclays has been able to successfully resolve such differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of collateral calls, Barclays will often be engaged in discussion with one or more counterparties in respect of such differences at any given time. Valuation estimates made by counterparties for collateral purposes are, like any other third-party valuation, considered when determining Barclays fair value estimates.

Notes to the financial statements

Assets and liabilities held at fair value

Sensitivity analysis of valuations using unobservable inputs

The Group	Fair value	Total	Favourable changes	Equity	Unfavourable changes	Equity
Product type	Total assets	liabilities	Income statement	Income statement	Income statement	Equity
	£m	£m	£m	£m	£m	£m
As at 31 December 2013						
Interest rate derivatives	1,031	(1,046)	246	-	(251)	-
Foreign exchange derivatives	117	(86)	32	-	(32)	-
Credit derivatives	2,200	(780)	145	-	(287)	-
Equity derivatives	1,266	(1,867)	234	-	(234)	-
Commodity derivatives	399	(540)	41	-	(41)	-
Government and government sponsored debt	220	-	1	-	(1)	-
Corporate debt	3,040	(12)	10	-	(4)	-
Certificates of deposit, commercial paper and other money market instruments	-	(409)	-	-	-	-
Non asset backed loans	16,132	-	151	-	(1,177)	-
Asset backed securities	2,112	-	104	1	(74)	(1)
Commercial real estate loans	1,198	-	61	-	(29)	-
Issued debt	1	(1,164)	-	-	-	-
Equity cash products	168	-	-	12	-	(12)
Funds and fund linked products	550	(54)	25	-	(25)	-
Investment property	451	-	22	-	(21)	-
Other	4,029	(1)	186	58	(182)	(47)
Total	32,914	(5,959)	1,258	71	(2,358)	(60)
As at 31 December 2012						
Interest rate derivatives	1,353	(1,204)	109	-	(109)	-
Foreign exchange derivatives	203	(244)	44	-	(44)	-
Credit derivatives	3,039	(1,206)	410	-	(512)	-
Equity derivatives	1,092	(1,702)	220	-	(214)	(1)
Commodity derivatives	660	(543)	70	-	(70)	-
Government and government sponsored debt	367	-	-	-	-	-
Corporate debt	3,339	(36)	15	-	(11)	-
Certificates of deposit, commercial paper and other money market instruments	-	(760)	-	-	-	-
Non asset backed loans	2,365	-	59	12	(58)	(12)
Asset backed securities	4,106	-	390	7	(305)	(7)
Commercial real estate loans	1,798	-	64	-	(47)	-
Issued debt	-	(1,439)	-	-	-	-
Equity cash products	145	-	-	13	-	(13)
Funds and fund linked products	754	(122)	112	-	(112)	-
Investment property	1,686	-	116	-	(104)	-
Other	4,476	(88)	312	64	(281)	(60)
Total	25,383	(7,344)	1,921	96	(1,867)	(93)

The effect of stressing unobservable inputs to a range of reasonably possible alternatives alongside considering the impact of using alternative models would be to increase fair values by up to £1.3bn (2012: £2.0bn^a) or to decrease fair values by up to £2.4bn (2012: £2.0bn^a). The ESHLA transfer contributed £1.0bn to the decrease with substantially all the potential effect impacting profit and loss rather than other comprehensive income.

The effect of stressing unobservable inputs has become less symmetric for 2013 following reassessment of the significance of unobservable loan spreads on the valuation of the ESHLA portfolio (included in non asset backed loans). The stress related to this portfolio is considered to be asymmetric as it is felt that alternative choices of loan spreads could lead to a lower valuation.

Note

^a The sensitivity analysis for 2012 has been revised to reflect the inclusion of investment property. This amounted to £0.1bn.

Notes to the financial statements

Assets and liabilities held at fair value

Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for assets and liabilities recognised at fair value and classified as Level 3 along with the range of values used for those significant unobservable inputs:

	Total assets £m	Total liabilities £m	Valuation technique(s)	Significant unobservable inputs	Range		Weighted average ^a	Units ^b
					Min	Max		
Derivative financial instruments^c								
Interest rate derivatives	1,031	(1,046)	Discounted cash flows Option model	Inflation forwards	(0.1)	4		%
				Inflation volatility	1	2		%
				IR – IR correlation	(34)	100		%
				FX – IR correlation	14	90		%
				Interest Rate Volatility	8	52		%
Credit derivatives	2,200	(780)	Discounted cash flows Correlation model Comparable pricing	Credit spread	138	1,530		bps
				Credit correlation	22	81		%
				Credit spread	206	934		bps
				Price	–	100		points
Equity derivatives	1,266	(1,867)	Option Model	Equity volatility	13	97		%
				Equity – equity correlation	25	96		%
				Equity – FX correlation	(91)	55		%
Non derivative financial instruments								
Corporate debt	3,040	(12)	Discounted cash flows Comparable pricing	Credit spread	138	540	208	bps
				Price	–	120	21	points
Asset backed securities	2,112	–	Discounted cash flows Comparable pricing	Conditional prepayment rate	–	54	2	%
				Constant default rate	–	15	4	%
				Loss given default	–	100	87	%
				Yield	–	52	6	%
				Credit spread	13	5,305	711	bps
				Price	–	201	55	points
Commercial real estate loans	1,198	–	Discounted Cash Flows	Loss given default	–	100	2	%
				Yield	2	26	6	%
				Credit spread	134	294	155	bps
Issued debt ^d	1	(1,164)						
Non asset backed loans	16,132	–	Discounted Cash Flows	Loan spread	–	1,124	34	bps
Other ^f	4,029	(1)	Discounted cash flows Comparable pricing Net asset value ^d	Conditional prepayment rate	–	19	3	%
				Constant default rate	2	10	5	%
				Loss given default	33	95	75	%
				Yield	3	35	7	%
				Price	–	102	73	points
				Net asset value				

Notes

- a Weighted averages have been provided for non derivative financial instruments and have been calculated by weighting inputs by the relative fair value. A weighted average has not been provided for derivatives as weighting by fair value would not give a comparable metric.
- b The units used to disclose ranges for significant unobservable inputs are percentages, points and basis points. Points are a percentage of par; for example, 100 points equals 100% of par. A basis point equals 1/100th of 1%; for example, 150 basis points equals 1.5%.
- c Certain derivative instruments are classified as L3 due to a significant unobservable credit spread input into the calculation of the Credit Valuation Adjustment (CVA) for the instruments. The range of unobservable credit spreads is between 29-1,065bps.
- d A range has not been provided for Net Asset Value as there would be a wide range reflecting the diverse nature of the positions.
- e Issued debt includes structured notes issued by Barclays containing embedded derivatives. Where an unobservable input is significant to the fair value of the note, it is likely to relate to the embedded derivative. In such cases, the unobservable inputs are broadly consistent with those presented for derivatives.
- f 'Other' primarily includes receivables resulting from the acquisition of the North American businesses of Lehman Brothers, asset-backed loans private equity investments and non-current assets held for sale.

Notes to the financial statements

Assets and liabilities held at fair value

The following section describes the significant unobservable inputs identified in the table above, and the sensitivity of fair value measurement of the instruments categorised as Level 3 assets or liabilities to increases in significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Where reliable interrelationships can be identified between significant unobservable inputs used in fair value measurement a description of those interrelationships is included below.

Comparable Price

Comparable instrument prices are used in valuation by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable observable bond, then adjusting that yield (or spread) to derive a value for the unobservable bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond.

In general a significant increase in comparable price in isolation will result in a movement in fair value that is favourable for the holder of a cash instrument.

For a derivative instrument, a significant increase in an input derived from a comparable price in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Conditional Prepayment Rate

Conditional prepayment rate is the proportion of voluntary, unscheduled repayments of loan principal by a borrower. Prepayment rates affect the weighted average life of securities by altering the timing of future projected cashflows.

A significant increase in a conditional prepayment rate in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Conditional prepayment rates are typically inversely correlated to credit spread. i.e. Securities with high borrower credit spread typically experience lower prepayment rates, and also tend to experience higher default rates.

Constant Default Rate

The Constant Default Rate represents an annualised rate of default of the loan principal by the borrower.

A significant increase in a constant default rate in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Constant Default Rate and Conditional Prepayment Rates are typically inversely correlated, less defaults on loans typically will mean higher credit quality and therefore more prepayments.

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input into valuation of derivative contracts with more than one underlying instrument. For example, where an option contract is written on a basket of underlying names the volatility of the basket, and hence the fair value of the option, will depend on the correlation between the basket components. Credit correlation generally refers to the correlation between default processes for the separate names that make up the reference pool of a collateralised debt obligation structure.

A significant increase in correlation in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Credit Spread / Loan Spread

Credit spreads typically represent the difference in yield between an instrument and a benchmark security or reference rate. Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cashflow calculation.

In general a significant increase in credit spread or Loan Spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash asset.

For a derivative instrument, a significant increase in credit spread in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Notes to the financial statements

Assets and liabilities held at fair value

Forwards

A price or rate that is applicable to a financial transaction that will take place in the future. A forward is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument at a point in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment. In general a significant increase in a forward in isolation will result in a movement in fair value that is favourable for the contracted receiver of the underlying (currency, bond, commodity etc.), but the sensitivity is dependent on the specific terms of the instrument.

Loss Given Default (LGD)

Loss Given Default represents the expected loss upon liquidation of the collateral as a percentage of the balance outstanding.

In general a significant increase in the LGD in isolation will translate to lower recovery and lower projected cashflows to pay to the securitisation, resulting in a movement in fair value that is unfavourable for the holder of the securitised product.

Net Asset Value

Net asset value represents the total value of a fund's assets and liabilities.

In general a significant increase in net asset value in isolation will result in a movement in fair value that is favourable for a fund.

Volatility

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. In general, volatilities will be implied from observed option prices. For unobservable options the implied volatility may reflect additional assumptions about the nature of the underlying risk, as well as reflecting the given strike/maturity profile of a specific option contract.

In general a significant increase in volatility in isolation will result in a movement in fair value that is favourable for the holder of a simple option, but the sensitivity is dependent on the specific terms of the instrument.

There may be interrelationships between unobservable volatilities and other unobservable inputs that can be implied from observation (e.g. when equity prices fall, implied equity volatilities generally rise) but these are specific to individual markets and may vary over time.

Yield

The rate used to discount projected cashflows in a discounted future cashflow analysis.

In general a significant increase in yield in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument.

Fair value adjustments

Key balance sheet valuation adjustments that may be of interest from a financial statement user perspective are quantified below:

	2013	2012
	£m	£m
Bid-offer valuation adjustments	(406)	(452)
Other exit adjustments	(208)	(294)
Uncollateralised derivative funding	(67)	(101)
Derivative credit valuation adjustments:		
- Monolines	(62)	(235)
- Other derivative credit valuation adjustments	(322)	(693)
Derivative debit valuation adjustments	310	442

Bid-offer valuation adjustments

The Group uses mid-market pricing where it is a market-maker and has the ability to transact at, or better than, mid price (which is the case for certain equity, bond and vanilla derivative markets). For other financial assets and liabilities, bid-offer adjustments are recorded to reflect the price for the expected close out strategy. The methodology for determining the bid-offer adjustment for a derivative portfolio involves calculating the net risk exposure by offsetting long and short positions by strike and term in accordance with the risk management and hedging strategy. Bid-offer levels are derived from market sources, such as broker data. The bid offer adjustments have reduced by £46m to £406m during 2013 as a result of movements in market bid offer spreads.

Other exit adjustments

Market data input for exotic derivatives may not have a directly observable bid offer spread. In such instances, an exit adjustment is applied as a proxy for the bid-offer adjustment. An example of this is correlation risk where an adjustment is required to reflect the possible range of values that market participants apply. The uncertainty adjustment may be determined by calibrating to derivative prices, or by scenario analysis or historical analysis. The other exit adjustments have reduced by £86m to £208m respectively as a result of movements in market bid offer spreads.

Notes to the financial statements

Assets and liabilities held at fair value

Discounting approaches for derivative instruments

Collateralised

In line with market practice, the methodology for discounting collateralised derivatives takes into account the nature and currency of the collateral that can be posted within the relevant Credit Support Annex (CSA). The CSA-aware discounting approach recognises the 'cheapest to deliver' option that reflects the ability of the party posting collateral to change the currency of the collateral.

Uncollateralised

A fair value adjustment of £67m is applied to account for the impact of incorporating the cost of funding into the valuation of uncollateralised derivatives accounted for at fair value across all asset classes and businesses within Barclays Corporate Banking and Investment Bank. This is called the 'funding fair value adjustment (FFVA)'.

FFVA is calculated as the valuation impact of changing from LIBOR-based discounting to using a discount rate that reflects the market cost of funding. Barclays internal Treasury lending rates are used as an estimate of this rate, although Barclays continues to assess viable alternatives and evolving market practice. Expected trade cash flows are consolidated at portfolio and currency level. The FFVA impact is applied symmetrically per currency to positive and negative cash flows.

The discounting period applied takes into account the probability of default of each counterparty, as well as any mandatory break clauses. Cash flows from partially funded trades (where this could be due to a contractual or non contractual collateral gap) are taken into account.

The FFVA incorporates a scaling factor which is an estimate of the extent to which the cost of funding is incorporated into observed traded levels. On calibrating the scaling factor, it is with the assumption that Credit Valuation Adjustments (CVAs) and Debit Valuation Adjustments (DVAs) are retained as valuation components incorporated into such levels. The effect of this scaling factor at 31 December 2013 was £200m (2012:£303m).

Uncollateralised interest rate derivatives traded by the Fixed Income Rates desk are used to determine this scaling factor, as the impact from this portfolio contributes the majority of the FFVA, where the trading history analysed includes new trades, terminations and novations. The FFVA balance and movement is driven by the Barclays own cost of funding spread over LIBOR, counterparty default probabilities and recovery rates, as well as the market value of those derivatives in scope. Movements in the market value of the portfolio in scope for FFVA are driven by interest rates.

Barclays continues to monitor market practices and activity to ensure the approach to discounting in derivative valuation remains appropriate. The above approach has been in use since 2012 with no significant changes.

Uncollateralised derivative funding adjustments have reduced by £34m to £67m as a result of reductions in Barclays funding costs and a reduction in exposure.

Derivative credit and debit valuation adjustments

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Barclays own credit quality respectively. These adjustments are modelled for OTC derivatives across all asset classes. Calculations are derived from estimates of exposure at default, probability of default and recovery rates, on a counterparty basis. Counterparties include (but are not limited to) corporates, monolines, sovereigns and sovereign agencies, supnationals, and special-purpose vehicles.

Exposure at default for CVA and DVA is generally based on expected exposure, estimated through the simulation of underlying risk factors. For some complex products, where this approach is not feasible, simplifying assumptions are made, either through proxying with a more vanilla structure, or using current or scenario-based mark-to-market as an estimate of future exposure. Where strong collateralisation agreement exists as a mitigant to counterparty risk, the exposure is set to zero.

Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken based on mapping internal counterparty ratings onto historical or market-based default and recovery information. In particular, this applies to sovereign related names where the effect of using the recovery assumptions implied in CDS levels would imply a £105m (2012: £200m) increase in CVA.

Correlation between counterparty credit and underlying derivative risk factors may lead to a systematic bias in the valuation of counterparty credit risk, termed 'wrong-way' or 'right-way' risk. This is not incorporated into the CVA calculation, but risk of wrong-way exposure is controlled at the trade origination stage.

Derivative credit valuation adjustments reduced by £544m to £384m primarily as a result of a reduction in monoline exposure and improvements in counterparty credit. Derivative debit valuation adjustments have reduced by £132m to £310m primarily as a result of improvements in Barclays credit.

Notes to the financial statements

Assets and liabilities held at fair value

Portfolio exemptions

The Group uses the portfolio exemption in IFRS 13 Fair Value Measurement to measure the fair value of The Group financial assets and financial liabilities. Assets and liabilities are measured using the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the balance sheet date under current market conditions.

Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

Year ended 31 December	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
As at 1 January	148	117	92	79
Additions	53	78	47	42
Amortisation and releases	(64)	(47)	(22)	(29)
As at 31 December	137	148	117	92

The reserve held for unrecognised gains is predominantly related to derivative financial instruments.

Third-party credit enhancements

Structured and brokered certificates of deposit issued by Barclays Group are insured up to \$250,000 per depositor, by the Federal Deposit Insurance Corporation (FDIC) in the United States of America. The FDIC is funded by premiums that Barclays and other banks pay for deposit insurance coverage. The carrying value of these issued certificates of deposit that are designated under the IAS 39 fair value option includes this third party credit enhancement. The on balance sheet value of these brokered certificates of deposit amounted to £3.1bn at 31 December 2013.

Valuation control framework

The Finance-Product Control-Valuations function is responsible for independent price verification, oversight of fair value adjustments and escalation of valuation issues. This process covers all fair value positions and is a key control in ensuring the material accuracy of valuations. Governance over the valuation process is the responsibility of the Valuation Committee. This Committee meets monthly and is responsible for overseeing valuation and fair value adjustment policy within Corporate and Investment Banking and this is the forum to which valuation issues are escalated.

Price verification uses independently sourced data that is deemed most representative of the market. The characteristics against which the data source is assessed are independence, reliability, consistency with other sources and evidence that the data represents an executable price. The most current data available at balance sheet date is used. Where significant variances are noted in the independent price verification process, an adjustment is taken to the fair value position. Additional fair value adjustments may be taken to reflect such factors as bid-offer spreads, market data uncertainty, model limitations and counterparty risk – further detail on these fair value adjustments is disclosed on pages 209 and 211.

Notes to the financial statements

Assets and liabilities held at fair value

Comparison of carrying amounts and fair values

The following tables summarises the fair value of financial assets and liabilities measured at amortised cost on The Group's and The Bank's balance sheet where the carrying amount is not a reasonable approximation of fair value:

The Group	2013 Carrying amount £m	Fair Value £m	2012 Carrying amount £m	Fair Value £m
Financial assets				
Loans and advances to banks	38,253	38,239	40,871	40,871
Loans and advances to customers:				
– Home loans	179,527	170,793	174,988	164,608
– Credit cards, unsecured and other retail lending	64,551	63,944	59,577	58,494
– Finance lease receivables	5,827	5,759	6,837	6,863
– Corporate loans	180,506	176,673	182,504	176,727
Reverse repurchase agreements and other similar secured lending	186,779	186,756	176,522	176,461
Financial liabilities				
Deposits from banks	(54,834)	(54,865)	(77,012)	(77,025)
Customer accounts:				
– Current and demand accounts	(134,849)	(134,849)	(127,786)	(127,786)
– Savings accounts	(123,824)	(123,886)	(99,875)	(99,875)
– Other time deposits	(169,262)	(168,992)	(157,839)	(157,834)
Debt securities in issue	(86,693)	(87,022)	(119,525)	(119,669)
Repurchase agreements and other similar secured lending	(196,748)	(196,748)	(217,178)	(217,178)
Subordinated liabilities	(22,249)	(22,746)	(24,422)	(23,871)
The Bank				
	2013 Carrying amount £m	Fair Value £m	2012 Carrying amount £m	Fair Value £m
Financial assets				
Loans and advances to banks	50,105	49,997	51,175	51,175
Loans and advances to customers:				
– Home loans	149,974	142,702	143,684	134,441
– Credit cards, unsecured and other personal lending	33,705	33,674	31,120	30,651
– Finance lease receivables	361	333	393	393
– Corporate loans	279,004	275,634	299,526	293,812
Reverse repurchase agreements and other similar secured lending	182,290	182,314	174,284	174,223
Financial liabilities				
Deposits from banks	(63,892)	(63,871)	(83,740)	(83,753)
Customer accounts:				
– Current and demand accounts	(107,720)	(107,716)	(97,344)	(97,344)
– Savings accounts	(110,377)	(110,366)	(88,918)	(88,918)
– Other time deposits	(279,223)	(279,267)	(294,864)	(294,836)
Debt securities in issue	(62,812)	(62,640)	(85,173)	(86,019)
Repurchase agreements and other similar secured lending	(188,140)	(188,136)	(187,148)	(187,148)
Subordinated liabilities	(20,982)	(21,792)	(22,941)	(22,285)

The fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a wide range of valuation techniques are available, it may not be appropriate to directly compare the Barclays fair value information to independent market or other financial institutions. Different valuation methodologies and assumptions can have a significant impact on fair values which are based on unobservable inputs.

Financial assets

The carrying value of financial assets held at amortised cost (including loans and advances to banks and customers, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the relevant accounting policy noted on pages 218 and 219.

Notes to the financial statements

Assets and liabilities held at fair value

Loans and advances to banks

The fair value of loans and advances, for the purpose of this disclosure, is derived from discounting expected cashflows in a way that reflects the current market price for lending to issuers of similar credit quality. Where market data or credit information on the underlying borrowers is unavailable, a number of proxy / extrapolation techniques are employed to determine the appropriate discount rates.

There is minimal difference between the fair value and carrying amount due to the short term nature of the lending (i.e. predominantly overnight deposits) and the high credit quality of counterparties.

Loans and advances to customers

The fair value of loans and advances to customers, for the purpose of this disclosure, is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality.

For retail lending (i.e. Home loans and Credit cards) tailored discounted cash flow models are used to estimate the fair value of different product types. For example for home loans different models are used to estimate fair values of tracker, offset and fixed rate mortgage products. Key inputs to these models are the differentials between historic and current product margins and estimated prepayment rates.

The discount of fair value to carrying amount for home loans has reduced to 5% (2012:6%) due to changes in product mix across the loan portfolio and movements in product margins.

The fair value of Corporate loans calculated by the use of discounted cash flow techniques where the gross loan values are discounted at a rate of difference between contractual margins and hurdle rates or spreads where Barclays charges a margin over LIBOR depending on credit quality and loss given default and years to maturity. The discount between the carrying and fair value has marginally decreased to 2.1% (2012: 3.2%)

Reverse repurchase agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short dated.

Financial liabilities

The carrying value of financial liabilities held at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the accounting policy noted on pages 220 and 242.

Deposits from banks and customer accounts

In many cases, the fair value disclosed approximates carrying value because the instruments are short term in nature or have interest rates that re-price frequently such as customer accounts and other deposits and short term debt securities.

The fair value for deposits with longer term maturities such as time deposits, are estimated using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities. Consequently the fair value discount is minimal.

Debt securities in issue

Fair values of other debt securities in issue are either based on quoted prices or, where the instruments are short dated, carrying amount approximates fair value. The fair value difference remained relatively flat at 0.4% (2012: 0.1%).

Repurchase agreements

The fair value of repurchase agreements approximates carrying amounts as these balances are generally short dated.

Notes to the financial statements

Assets and liabilities held at fair value

Subordinated liabilities

Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issue concerned or issues with similar terms and conditions.

As at 31 December 2013 The Group	Fair Value £m	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets				
Loans and advances to banks	38,239	3,849	30,403	3,987
Loans and advances to customers:				
– Home loans	170,793	-	-	170,793
– Credit cards, unsecured and other retail lending	63,944	2,790	1,659	59,495
– Corporate loans	176,673	635	115,923	60,115
Reverse repurchase agreements and other similar secured lending	186,756	-	186,756	-
Financial liabilities				
Deposits from banks	(54,865)	(4,886)	(49,697)	(282)
Customer accounts:				
– Current and demand accounts	(134,849)	(129,369)	(3,254)	(2,226)
– Savings accounts	(123,886)	(106,964)	(15,876)	(1,046)
– Other time deposits	(168,992)	(41,815)	(116,009)	(11,168)
Debt securities in issue	(87,022)	(872)	(85,471)	(679)
Repurchase agreements and other similar secured borrowing	(196,748)	-	(196,748)	-
Subordinated liabilities	(22,746)	-	(22,711)	(35)

As at 31 December 2013 The Bank	Fair Value £m	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets				
Loans and advances to banks	49,997	176	46,036	3,785
Loans and advances to customers:				
– Home loans	142,702	-	-	142,702
– Credit cards, unsecured and other retail lending	33,674	1,114	210	32,350
– Corporate loans	275,634	40	222,947	52,647
Reverse repurchase agreements and other similar secured lending	182,314	-	182,314	-
Financial liabilities				
Deposits from banks	(63,871)	(4,255)	(59,585)	(31)
Customer accounts:				
– Current and demand accounts	(107,716)	(101,184)	(6,513)	(19)
– Savings accounts	(110,366)	(99,895)	(10,454)	(17)
– Other time deposits	(279,267)	(35,212)	(232,931)	(11,124)
Debt securities in issue	(62,640)	-	(62,640)	-
Repurchase agreements and other similar secured borrowing	(188,136)	-	(188,136)	-
Subordinated liabilities	(21,792)	-	(21,792)	-

Fair Value hierarchy

Financial assets

Loans and advances

The Fair Value hierarchy for loans and advances is determined by reference to the observability of inputs into the fair value models:

- Balances considered as readily accessible cash are classified as level 1;
- Where significant inputs into the fair value models are considered observable, for example LIBOR or the Bank of England base rate, the balances are classified as level 2. Settlement balances and cash collateral are also classified as level 2; and
- Where unobservable inputs, such as internal margins, are deemed significant, the related balances are classified as level 3

Loans and advances to banks are mainly classified as level and 2. Home loans, Credit cards, unsecured and other retail lending are generally classified as level 3 as significant inputs used in the valuation models are unobservable. Corporate loans are mainly classified as level 2 or 3 depending on the observability of inputs into the fair value models.

Notes to the financial statements

Assets and liabilities held at fair value

Reverse repurchase agreements

The fair value for repurchase agreements is obtained using fair value models with observable inputs. These balances are therefore classified as level 2.

Financial liabilities

Deposits from banks

The majority of the deposits from banks balance is classified as level 2 where they represent cash collateral, settlements and other deposits. Readily accessible cash is classified as Level 1.

Customer accounts

The majority of customer account balances are classified as level 1 where the balances represent readily accessible cash, and level 2 where they represent settlements and other deposits. The level 3 balances are largely comprised of other deposits where models with significant unobservable inputs, such as Barclays historic and current product margins, are being used.

Debt securities in issue

These are mainly classified as level 2 as the inputs into the fair value models used for these balances are observable.

Repurchase agreements

The fair value for repurchase agreements is obtained using fair value models with observable inputs. These balances are therefore classified as level 2.

Subordinated liabilities

The majority of these balances are classified as level 2 as the inputs used to determine fair value are largely observable in an active market.

Critical accounting estimates and judgements

Quoted market prices are not available for many of the financial assets and liabilities that are held at fair value and The Group uses a variety of techniques to estimate the fair value. The above note describes the more judgemental aspects of valuation in the period, including: credit valuation adjustments on monoline exposures, commercial real estate loans, private equity investments, and fair value loans to government and business and other services.

Notes to the financial statements

Assets and liabilities held at fair value

18 Offsetting financial assets and financial liabilities

In accordance with IAS 32 Financial Instruments: Presentation, The Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on:

- all financial assets and liabilities that are reported net on the balance sheet; and
- all derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of IAS 32 described above.

The 'Net amounts' presented below are not intended to represent The Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

The Group

	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements ^d	Balance sheet total ^e
	Effects of offsetting on balance sheet			Related amounts not offset ^c				
	Gross amounts £m	Amounts offset ^a £m	Net amounts reported on the balance sheet ^b £m	Financial instruments £m	Financial collateral £m	Net amount £m		
As at 31 December 2013								
Derivative financial assets	608,696	(295,793)	312,903	(258,528)	(41,397)	12,978	11,592	324,495
Reverse repurchase agreements and other similar secured lending	246,281	(93,508)	152,773	-	(151,833)	940	34,006	186,779
Total Assets	854,977	(389,301)	465,676	(258,528)	(193,230)	13,918	45,598	511,274
Derivative financial liabilities	(603,580)	296,273	(307,307)	258,528	36,754	(12,025)	(13,327)	(320,634)
Repurchase agreements and other similar secured borrowing	(253,966)	93,508	(160,458)	-	159,686	(772)	(36,290)	(196,748)
Total Liabilities	(857,546)	389,781	(467,765)	258,528	196,440	(12,797)	(49,617)	(517,382)
As at 31 December 2012								
Derivative financial assets	879,082	(420,741)	458,341	(387,672)	(53,183)	17,486	10,815	469,156
Reverse repurchase agreements and other similar secured lending	244,272	(100,989)	143,283	-	(142,009)	1,274	33,239	176,522
Total Assets	1,123,354	(521,730)	601,624	(387,672)	(195,192)	18,760	44,054	645,678
Derivative financial liabilities	(869,514)	419,192	(450,322)	387,672	52,163	(10,487)	(12,399)	(462,721)
Repurchase agreements and other similar secured borrowing	(259,078)	100,989	(158,089)	-	157,254	(835)	(59,089)	(217,178)
Total Liabilities	(1,128,592)	520,181	(608,411)	387,672	209,417	(11,322)	(71,488)	(679,899)

Notes

a Amounts offset for Derivative financial assets includes cash collateral netted of £1,965m (2012: £6,506m). Amounts offset for Derivative liabilities includes cash collateral netted of £2,445m (2012: £4,957m). Settlements assets and liabilities have been offset amounting to £6,967m (2012: £9,879m). No other significant recognised financial assets and liabilities were offset in the balance sheet. Therefore, the only balance sheet categories necessary for inclusion in the table are those shown above.

b The table excludes Reverse repurchase agreements designated at fair value which are subject to enforceable master netting arrangements of £2bn (2012: £3bn).

c Financial collateral is reflected at its fair value, but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.

d This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.

The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

Notes to the financial statements

Assets and liabilities held at fair value

The Bank

	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements ^d	Balance sheet total ^e
	Effects of offsetting on balance sheet			Related amounts not offset ^c				
	Gross amounts	Amounts offset ^a	Net amounts reported on the balance sheet ^b	Financial instruments	Financial collateral	Net amount		
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2013								
Derivative financial assets	616,655	(283,752)	332,903	(282,822)	(41,111)	8,970	4,663	337,566
Reverse repurchase agreements and other similar secured lending	232,662	(61,982)	170,680	-	(169,043)	1,638	11,610	182,290
Total Assets	849,317	(345,734)	503,583	(282,822)	(210,154)	10,608	16,273	519,856
Derivative financial liabilities	(607,062)	283,873	(323,189)	282,822	36,595	(3,772)	(3,796)	(326,985)
Repurchase agreements and other similar secured borrowing	(232,649)	61,982	(170,667)	-	169,511	(1,156)	(17,473)	(188,140)
Total Liabilities	(839,711)	345,855	(493,856)	282,822	206,106	(4,928)	(21,269)	(515,125)
As at 31 December 2012								
Derivative financial assets	890,674	(422,544)	468,130	(393,398)	(52,697)	22,035	7,999	476,129
Reverse repurchase agreements and other similar secured lending	214,663	(66,170)	148,493	-	(147,692)	801	25,791	174,284
Total Assets	1,105,337	(488,714)	616,623	(393,398)	(200,389)	22,836	33,790	650,413
Derivative financial liabilities	(880,733)	422,069	(458,664)	393,398	51,849	(13,417)	(7,657)	(466,321)
Repurchase agreements and other similar secured borrowing	(229,542)	66,170	(163,372)	-	162,866	(506)	(23,776)	(187,148)
Total Liabilities	(1,110,275)	488,239	(622,036)	393,398	214,715	(13,923)	(31,433)	(653,469)

Related amounts not offset

Derivative assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and other credit risk mitigation strategies used by The Group are further explained in the Credit risk mitigation section on pages 313 to 316.

Notes

a Amounts offset for Derivative financial assets includes cash collateral netted of £6,285m (2012: £13,769m). Amounts offset for Derivative liabilities includes cash collateral netted of £6,164m (2012: £13,294m). Settlements assets and liabilities have been offset amounting to £268m (2012: £205m). No other significant recognised financial assets and liabilities were offset in the balance sheet. Therefore, the only balance sheet categories necessary for inclusion in the table are those shown above.

b The table excludes Reverse repurchase agreements designated at fair value which are subject to enforceable master netting arrangements of £1bn (2012: £2bn).

c Financial collateral is reflected at its fair value, but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.

d This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.

e The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

Notes to the financial statements

Financial instruments held at amortised cost

Financial instruments held at amortised cost

The notes in this section focus on assets that are held at amortised cost arising from The Group's retail and wholesale lending including loans and advances, finance leases, repurchase and reverse repurchase agreements and similar secured lending. Detail regarding The Group's capital and liquidity position can be found on pages 199 to 224 of the Barclays PLC Annual Report.

Financial instruments held at amortised cost

Accounting for financial instruments held at amortised cost

Loans and advances to customers and banks, customer accounts, debt securities and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability.

19 Loans and advances to banks and customers

As at 31 December	The Group	2012	The Bank	2012
	2013		2013	
	£m	£m	£m	£m
Gross loans and advances to banks	38,263	40,912	50,115	51,216
Less: allowance for impairment	(10)	(41)	(10)	(41)
Loans and advances to banks	38,253	40,871	50,105	51,175
Gross loans and advances to customers	437,659	431,664	467,607	479,647
Less: allowance for impairment	(7,248)	(7,758)	(4,563)	(4,924)
Loans and advances to customers	430,411	423,906	463,044	474,723

Further information on The Group's loans and advances to banks and customers and impairment allowances are included on pages 142 to 189 of the Barclays PLC Annual Report.

20 Finance leases

Accounting for finance leases

The Group applies IAS 17 *Leases* in accounting for finance leases, both where it is the lessor or the lessee. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where The Group is the lessor, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Where The Group is the lessee, the leased asset is recognised in property, plant and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease.

Interest income or expense is recognised in interest receivable or payable, allocated to accounting periods to reflect a constant periodic rate of return.

Finance lease receivables

Finance lease receivables are included within loans and advances to customers. The Group specialises in asset-based lending and works with a broad range of international technology, industrial equipment and commercial companies to provide customised finance programmes to assist manufacturers, dealers and distributors of assets.

Notes to the financial statements

Financial instruments held at amortised cost

	2013				2012			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Un-guaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Un-guaranteed residual values £m
The Group								
Not more than one year	2,004	(286)	1,718	93	2,363	(329)	2,034	80
Over one year but not more than five years	4,308	(662)	3,646	268	5,055	(749)	4,306	105
Over five years	539	(76)	463	85	617	(120)	497	318
Total	6,851	(1,024)	5,827	446	8,035	(1,198)	6,837	503
The Bank								
Not more than one year	14	-	14	-	21	(0)	21	-
Over one year but not more than five years	377	(51)	326	-	392	(26)	366	-
Over five years	22	(1)	21	-	74	(68)	6	-
Total	413	(52)	361	-	487	(94)	393	-

The impairment allowance for uncollectable finance lease receivables amounted to £129m at 31 December 2013 (2012: £140m).

Finance lease liabilities

The Group leases items of property, plant and equipment on terms that meet the definition of finance leases. Finance lease liabilities are included within accruals, deferred income and other liabilities (see Note 26).

As at 31 December 2013, the total future minimum payments under finance leases were £19m (2012: £35m), of which £5m (2012: £5m) was due within one year and the total future minimum payments under finance leases for the Bank were £nil (2012: £2m). As at 31 December 2013, the carrying amount of assets held under finance leases was £16m (2012: £22m).

21 Reclassification of financial assets held for trading

Accounting for the reclassification of financial assets held for trading

In accordance with IAS 39, where The Group no longer intends to trade in financial assets it may transfer them out of the held for trading classification and measure them at amortised cost if they meet the definition of a loan. The initial value used for the purposes of establishing amortised cost is fair value on the date of the transfer.

Prior to 2010, The Group reclassified certain financial assets, originally classified as held for trading that were deemed to be not held for trading purposes to loans and receivables.

The carrying value of the securities reclassified into loans and receivables has decreased from £5,188m to £2,812m primarily as a result of sales and paydowns of the underlying securities during the period.

Sales of securities from the 16 December 2008 reclassification totalled £18m (2012: £151m) and sales of securities from the 25 November 2009 reclassification totalled £1,573m (2012: £1,316m).

Note
a 2012 amounts for gross investment and future finance income have both been revised by £67m (£23m increase in 1 to 5 year category and £44m increase in over 5 year category). There has been a £nil impact on present value of minimum lease payments receivable.

Notes to the financial statements

Financial instruments held at amortised cost

The following table provides a summary of the assets reclassified from held for trading to loans and receivables.

	2013		2012	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
As at 31 December				
Trading assets reclassified to loans and receivables				
Reclassification 25 November 2009	2,791	2,718	5,140	4,996
Reclassification 16 December 2008	21	9	48	50
Total financial assets reclassified to loans and receivables	2,812	2,727	5,188	5,046

If the reclassifications had not been made, The Group's income statements for 2013 would have included a net gain on the reclassified trading assets of £57m (2012: gain of £247m).

22 Reverse repurchase and repurchase agreements including other similar lending and borrowing

Reverse repurchase agreements (and stock borrowing or similar transaction) are a form of secured lending whereby The Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where The Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

Accounting for reverse repurchase and repurchase agreements including other similar lending and borrowing

The Group purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included in the balance sheet as The Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost.

The Group may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the balance sheet as The Group retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at amortised cost.

	The Group		The Bank	
	2013 £m	2012 £m	2013 £m	2012 £m
Assets				
Banks	67,889	64,616	42,616	40,548
Customers	118,890	111,906	139,674	133,736
Reverse repurchase agreements and other similar secured lending	186,779	176,522	182,290	174,284
Liabilities				
Banks	66,896	87,815	39,466	48,535
Customers	129,852	129,363	148,674	138,613
Repurchase agreements and other similar secured borrowing	196,748	217,178	188,140	187,148

Notes to the financial statements

Non-current assets and other investments

Non-current assets and other investments

The notes included in this section focus on The Group's property plant and equipment, intangible assets, and goodwill which provide long term future economic benefits.

23 Property, plant and equipment

Accounting for property, plant and equipment

The Group applies IAS 16 *Property Plant and Equipment* and IAS 40 *Investment Properties*.

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. The Group uses the following annual rates in calculating depreciation:

Annual rates in calculating depreciation	Depreciation rate
Freehold land	Not depreciated
Freehold buildings and long-leasehold property (more than 50 years to run)	2-3.3%
Leasehold property over the remaining life of the lease (less than 50 years to run)	Over the remaining life of the lease
Costs of adaptation of freehold and leasehold property	6-10%
Equipment installed in freehold and leasehold property	6-10%
Computers and similar equipment	17-33%
Fixtures and fittings and other equipment	9-20%

Where a leasehold property has a remaining useful life of less than 15 years, costs of adaptation and installed equipment are depreciated over the remaining life of the lease.

Investment property

The Group initially recognises investment property at cost, and subsequently at fair value at each balance sheet date reflecting market conditions at the reporting date. Gains and losses on re-measurement are included in the income statement.

Notes to the financial statements

Non-current assets and other investments

	The Group					The Bank			
	Investment property £m	Property £m	Equipment £m	Leased assets £m	Total £m	Investment property £m	Property £m	Equipment £m	Total £m
Cost									
As at 1st January 2013	1,686	4,030	4,794	14	10,524	-	2,136	2,214	4,350
Acquisitions and disposals of subsidiaries	-	-	-	-	-	-	-	-	-
Additions and disposals	(1,052)	21	88	(4)	(947)	68	(105)	(50)	(87)
Change in fair value of investment properties	41	-	-	-	41	-	-	-	-
Exchange and other movements	(224)	(127)	(330)	-	(681)	-	(8)	(45)	(53)
As at 31st December 2013	451	3,924	4,552	10	8,937	68	2,023	2,119	4,210
Accumulated depreciation and impairment									
As at 1st January 2013	-	(1,414)	(3,350)	(6)	(4,770)	-	(940)	(1,504)	(2,444)
Depreciation charge	-	(220)	(426)	(1)	(647)	-	(118)	(195)	(313)
Disposals	-	113	282	-	395	-	107	209	316
Exchange and other movements	-	8	293	-	301	-	(34)	(11)	(45)
As at 31st December 2013	-	(1,513)	(3,201)	(7)	(4,721)	-	(985)	(1,501)	(2,486)
Net book value	451	2,411	1,351	3	4,216	68	1,038	618	1,724
Cost									
As at 1st January 2012	2,928	3,959	4,755	20	11,662	4	2,056	2,169	4,229
Acquisitions and disposals of subsidiaries	(16)	6	1	-	(9)	-	2	-	2
Additions and disposals	(191)	177	211	(6)	191	(4)	96	65	157
Change in fair value of investment properties	23	-	-	-	23	-	-	-	-
Exchange and other movements	(1,058)	(112)	(173)	-	(1,343)	-	(18)	(20)	(38)
As at 31st December 2012	1,686	4,030	4,794	14	10,524	-	2,136	2,214	4,350
Accumulated depreciation and impairment									
As at 1st January 2012	-	(1,245)	(3,244)	(7)	(4,496)	-	(839)	(1,453)	(2,292)
Depreciation charge	-	(212)	(456)	(1)	(669)	-	(118)	(214)	(332)
Disposals	-	18	204	2	224	-	12	148	160
Exchange and other movements	-	25	146	-	171	-	5	15	20
As at 31st December 2012	-	(1,414)	(3,350)	(6)	(4,770)	-	(940)	(1,504)	(2,444)
Net book value	1,686	2,616	1,444	8	5,754	-	1,196	710	1,906

Property rentals of £70m (2012: £105m) and £38m (2012: £52m) have been included in net investment income and other income respectively. Impairment of £86m (2012: £6m) was charged during the year in relation to premises restructuring in Europe. Investment property disposals of £1bn relate to real estate investments within Crescent Real Estate Holdings LLC, an investment company controlled by Barclays until December 2013.

The fair value of investment property is determined by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Discounted cash flow techniques may be employed to calculate fair value where there have been no recent transactions, using current external market inputs such as market rents and interest rates. Valuations are carried out by management with the support of appropriately qualified independent valuers. Refer to Note 17 fair value of assets and liabilities for further detail.

Notes to the financial statements

Non-current assets and other investments

24 Goodwill and intangible assets

Accounting for goodwill and other intangible assets

Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the fair value of the purchase consideration over the fair value of The Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the pre tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash generating unit (CGU) to which the goodwill relates, or the CGU's fair value if this is higher.

Intangible assets

The accounting standard that The Group applies in accounting for intangible assets other than goodwill is IAS 38 *Intangible Assets*.

Intangible assets include brands, customer lists, internally generated software, other software, licences and other contracts and core deposit intangibles. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

Notes to the financial statements

Non-current assets and other investments

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
The Group								
Cost								
As at 1 January 2013	6,585	1,844	478	243	149	1,638	476	11,413
Additions and disposals	-	617	79	-	-	36	6	738
Exchange and other movements	(239)	(50)	(1)	(49)	(33)	(131)	(45)	(548)
As at 31 December 2013	6,346	2,411	556	194	116	1,543	437	11,603
Accumulated amortisation and impairment								
As at 1 January 2013	(1,379)	(809)	(158)	(96)	(111)	(717)	(228)	(3,498)
Disposals	-	52	-	-	-	-	3	55
Amortisation charge	-	(241)	(38)	(9)	(13)	(144)	(35)	(480)
Impairment charge	(79)	(38)	(19)	-	-	-	(3)	(139)
Exchange and other movements	(10)	37	(2)	20	27	62	10	144
As at 31 December 2013	(1,468)	(999)	(217)	(85)	(97)	(799)	(253)	(3,918)
Net book value	4,878	1,412	339	109	19	744	184	7,685
The Bank								
Cost								
As at 1 January 2013	4,276	1,373	177	6	-	107	125	6,064
Additions and disposals	-	363	60	-	-	11	(4)	430
Exchange and other movements	-	-	1	-	-	(1)	1	1
As at 31 December 2013	4,276	1,736	238	6	-	117	122	6,495
Accumulated amortisation and impairment								
As at 1 January 2013	(817)	(520)	(59)	(4)	-	(58)	(42)	(1,500)
Disposals	-	51	-	-	-	-	3	54
Amortisation charge	-	(172)	3	-	-	(12)	(10)	(191)
Impairment charge	-	(38)	(19)	-	-	-	(3)	(60)
Exchange and other movements	-	4	-	-	-	1	3	8
As at 31 December 2013	(817)	(675)	(75)	(4)	-	(69)	(49)	(1,689)
Net book value	3,459	1,061	163	2	-	48	73	4,806

Notes to the financial statements

Non-current assets and other investments

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
The Group								
Cost								
As at 1 January 2012	6,697	1,437	328	287	166	1,724	444	11,083
Additions and disposals	29	446	115	(21)	(1)	19	34	621
Exchange and other movements	(141)	(39)	35	(23)	(16)	(105)	(2)	(291)
As at 31 December 2012	6,585	1,844	478	243	149	1,638	476	11,413
Accumulated amortisation and impairment								
As at 1 January 2012	(1,392)	(694)	(114)	(114)	(106)	(615)	(202)	(3,237)
Disposals	-	32	5	21	1	1	5	65
Amortisation charge	-	(162)	(52)	(11)	(18)	(152)	(40)	(435)
Impairment charge	-	(8)	-	-	-	-	(2)	(10)
Exchange and other movements	13	23	3	8	12	49	11	119
As at 31 December 2012	(1,379)	(809)	(158)	(96)	(111)	(717)	(228)	(3,498)
Net book value	5,206	1,035	320	147	38	921	248	7,915
The Bank								
Cost								
As at 1 January 2012	4,277	989	195	6	-	107	124	5,698
Additions and disposals	-	392	(5)	-	-	-	(3)	384
Exchange and other movements	(1)	(8)	(13)	-	-	-	4	(18)
As at 31 December 2012	4,276	1,373	177	6	-	107	125	6,064
Accumulated amortisation and impairment								
As at 1 January 2012	(816)	(426)	(48)	(4)	-	(38)	(33)	(1,365)
Disposals	-	28	-	-	-	-	2	30
Amortisation charge	-	(124)	(14)	-	-	(20)	(12)	(170)
Impairment charge	-	(2)	-	-	-	-	(1)	(3)
Exchange and other movements	(1)	4	3	-	-	-	2	8
As at 31 December 2012	(817)	(520)	(59)	(4)	-	(58)	(42)	(1,500)
Net book value	3,459	853	118	2	-	49	83	4,564

Goodwill

Goodwill is allocated to business operations according to business segments as follows:

	The Group		The Bank	
	2013 £m	2012 £m	2013 £m	2012 £m
UK RBB	3,142	3,144	3,130	3,130
RBB Europe	63	62	62	62
RBB Africa	690	863	-	-
Barclaycard	482	514	172	172
Investment Bank	77	93	-	-
Corporate Banking	112	139	-	-
Wealth and Investment Management	312	391	95	95
Total net book value of goodwill	4,878	5,206	3,459	3,459

Notes to the financial statements

Non-current assets and other investments

Critical accounting estimates and judgements

Goodwill

Testing goodwill for impairment involves a significant amount of estimation. This includes the identification of independent cash generating units and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisation. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity and, the impacts of regulatory change. Determining both the expected pre-tax cash flows and the risk adjusted interest rate appropriate to the operating unit requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows.

Other intangible assets

Determining the estimated useful lives of intangible assets (such as those arising from contractual relationships) requires an analysis of circumstances and judgement. The assessment of whether an asset is exhibiting indicators of impairment as well as the calculation of impairment, which requires the estimate of future cash flows and fair values less costs to sell, also requires the preparation of cash flow forecasts and fair values for assets that may not be regularly bought and sold.

Impairment testing of goodwill

During 2013, The Group recognised an impairment charge of £79m (2012: nil) in respect of goodwill attributable to businesses acquired in a previous period by Wealth and Investment Management. Following a streamlining of operations within Wealth and Investment Management, the forecast future cashflows from these businesses have been revised and no longer support the carrying value of the goodwill. As a result the attributable goodwill balances have been fully impaired.

Key assumptions

The key assumptions used for impairment testing are set out below for each significant goodwill balance. Other goodwill of £1,091m (2012: £1,247m) was allocated to multiple cash-generating units which are not considered individually significant.

UK RBB

At 31 December 2013, goodwill relating to Woolwich was £3,130m (2012: £3,130m) of the total UK RBB balance. The carrying value of the cash generating unit (CGU) is determined using an allocation of total group shareholder funds excluding goodwill based on the CGU's share of risk weighted assets before goodwill balances are added back. The recoverable amount of the CGU has been determined using cash flow predictions based on financial budgets approved by management and covering a five-year period, with a terminal growth rate of 2.1% (2012: 2.4%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 11.8% (2012: 12.4%). Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by £8,628m (2012: £9,334m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £1,757m (2012: £1,637m) and £1,210m (2012: £1,115m) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £1,795m (2012: £1,767m).

Africa RBB

At 31 December 2013, goodwill relating to the Absa RBB CGU was £657m (2012: £829m) of the total Africa RBB balance. The carrying value of the CGU has been determined by using net asset value. The recoverable amount of Absa RBB has been determined using cash flow predictions based on financial budgets approved by management and covering a five year period, with a terminal growth rate of 6% (2012: 6%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 13.5% (2012: 13%). The recoverable amount calculated based on value in use exceeded the carrying amount including goodwill by £4,217m (2012: £3,133m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £800m (2012: £813m) and £603m (2012: £623m) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £664m (2012: £643m).

Notes to the financial statements

Non-current assets and other investments

25 Operating leases

Accounting for operating leases

The Group applies IAS 17 *Leases*, for operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. Where The Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group holds the leased assets on balance sheet within property, plant and equipment.

Where The Group is the lessee, rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Operating lease receivables

The Group acts as lessor, whereby items of plant and equipment are purchased and then leased to third parties under arrangements qualifying as operating leases. The future minimum lease payments expected to be received under non-cancellable operating leases as at 31 December 2013 was £3m (2012: £4m).

Operating lease commitments

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and The Group reports the future minimum lease payments as an expense over the lease term. The leases have various terms, escalation and renewal rights. There are no contingent rents payable.

Operating lease rentals of £645m (2012: £622m) have been included in administration and general expenses.

The future minimum lease payments by The Group under non-cancellable operating leases are as follows:

	The Group				The Bank			
	2013		2012		2013		2012	
	Property £m	Equipment £m	Property £m	Equipment £m	Property £m	Equipment £m	Property £m	Equipment £m
Not more than one year	567	34	695	13	217	31	277	3
Over one year but not more than five years	1,220	124	1,290	3	641	122	828	3
Over five years	2,441	8	2,768	-	1,485	8	1,402	-
Total	4,228	166	4,753	16	2,343	161	2,507	6

The total of future minimum sublease payments to be received under non-cancellable subleases at 31 December 2013 were £108m (2012: £22m) for The Group and £106m (2012: £16m) for the Bank.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

Accruals, provisions, legal proceedings and contingent liabilities

The notes included in this section focus on The Group's accruals, provisions and contingent liabilities arising from its banking and insurance businesses. Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Contingent liabilities reflect potential liabilities that are not recognised on the balance sheet.

26 Accruals, deferred income and other liabilities

Accounting for insurance contracts

The Group applies IFRS 4 Insurance Contracts to its insurance contracts. An insurance contract is a contract that protects against a third party or a non-financial risk. Some wealth management and other products, such as life assurance contracts, combine investment and insurance features; these are treated as insurance contracts when they pay benefits that are at least 5% more than they would pay if the insured event does not occur.

Insurance liabilities include current best estimates of future contractual cash flows, claims handling, and administration costs in respect of claims. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities. Where a deficiency is highlighted by the tests, insurance liabilities are increased, any deficiency being recognised in the income statement.

Insurance premium revenue is recognised in the income statement in the period earned, net of reinsurance premiums payable, in net premiums from insurance contracts. Increases and decreases in insurance liabilities are recognised in the income statement in Net claims and benefits on insurance contracts.

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Accruals and deferred income	5,179	4,874	2,224	2,313
Other payables	5,676	4,934	16,819	12,681
Obligations under finance leases (see Note x)	19	35	-	2
Insurance contract liabilities including unit-linked liabilities	2,799	2,689	-	-
Accruals, deferred income and other liabilities	13,673	12,532	19,043	14,996

Insurance liabilities relate principally to The Group's long term business. Insurance contract liabilities associated with The Group's short term non-life business are £108m (2012: £126m). The maximum amounts payable under all of The Group's insurance products, ignoring the probability of insured events occurring and the contribution from investments backing the insurance policies, were £78bn (2012: £102bn) or £75bn (2012: £98bn)^a after reinsurance. Of this insured risk, £65bn (2012: £87bn) or £63bn (2012: £85bn)^a after reinsurances was concentrated in short term insurance contracts in Africa.

The impact to the income statement and equity under a reasonably possible change in the assumptions used to calculate the insurance liabilities would be £7m (2012: £7m).

Note

a 2012 amounts have been restated following a review of processes used to calculate the amount of risk ceded to reinsurers.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

27 Provisions

Accounting for provisions

The Group applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accounting for non-financial liabilities.

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when The Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan. Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Conduct remediation			Litigation £m	Sundry provisions £m	Total £m
				Payment protection insurance redress £m	Interest rate hedging product redress £m	Other conduct £m			
The Group									
As at 1 January 2013	104	71	159	986	814	213	200	219	2,766
Additions	55	784	116	1,350	650	310	371	82	3,718
Amounts utilised	(63)	(332)	(14)	(1,365)	(295)	(130)	(70)	(11)	(2,280)
Unused amounts reversed	(5)	(143)	(98)	-	-	(5)	(12)	(65)	(328)
Exchange and other movements	9	8	2	-	-	-	(4)	(5)	10
As at 31 December 2013	100	388	165	971	1,169	388	485	220	3,886
The Bank									
As at 1 January 2013	92	60	138	839	814	203	155	104	2,405
Additions	18	577	79	1,240	650	241	163	84	3,052
Amounts utilised	(57)	(164)	(13)	(1,175)	(295)	(112)	(58)	1	(1,873)
Unused amounts reversed	(5)	(117)	(111)	-	-	(5)	(6)	(45)	(289)
Exchange and other movements	9	2	3	-	-	-	(2)	6	18
As at 31 December 2013	57	358	96	904	1,169	327	252	150	3,313

Provisions expected to be recovered or settled within no more than 12 months after 31 December 2013 were £3,577m (2012: £1,700m) and for the bank were £3,090m (2012: £1,348m).

Conduct remediation

Conduct provisions comprise the estimated cost of making redress payments to customers, clients and counterparties for losses or damages associated with inappropriate judgement in the execution of our business activities. Conduct remediation largely relates to payment protection insurance and interest rate hedging products but also includes other smaller provisions across the retail and corporate businesses which are likely to be utilised within the next 18 months.

Critical accounting estimates and judgements

Payment Protection Insurance Redress

Following the conclusion of the 2011 Judicial Review, Barclays has raised provisions totalling £3.95bn against the cost of PPI redress and complaint handling costs. As at 31 December 2013, £2.98bn of the provision had been utilised, leaving a residual provision of £0.97bn.

Through to 31 December 2013, 1.0m (2012: 0.6m) customer initiated claims^a had been received and processed. The monthly volume of claims received has declined by 59% since the peak in May 2012, although the rate of decline has been less than previously expected. As a result an additional provision of £1.35bn was recognised in June 2013 to reflect this increased expectation of claims, a corresponding increase in cases referred to the Financial Ombudsman Service (FOS) and associated operational costs.

Note

^a Total claims received to date excluding those for which no PPI policy exists and excluding responses to proactive mailing. The volume for 31 December 2012 has been restated to exclude cases where there was no PPI policy: previously 1.1m.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

In August 2012, in accordance with regulatory standards, Barclays commenced a proactive mailing of the holders of approximately 750,000 policies. Of this population approximately 660,000 (2012: 100,000) had been contacted by 31 December 2013 and it is anticipated that the remainder will be contacted by 31 March 2014.

To date Barclays has upheld 74% (2012: 70%) of all claims received^b, excluding payment of gestures of goodwill and claims for which no PPI policy exists. The average redress per valid policy^c to date is £1,763 (2012: £1,705), comprising, where applicable, the refund of premium, compound interest charged and compensatory interest of 8%.

The current provision is calculated using a number of key assumptions which continue to involve significant management judgement:

- Customer initiated claim volumes – claims received but not yet processed as at 31 December 2013 and an estimate of future claims initiated by customers where the volume is anticipated to decline over time
- Proactive response rate – volume of claims in response to proactive mailing
- Uphold rate – the percentage of claims that are upheld as being valid upon review
- Average claim redress - the expected average payment to customers for upheld claims based on the type and age of the policy/policies.

These assumptions remain subjective; in particular due to the uncertainty associated with future claims levels. The resulting provision represents Barclays' best estimate of all future expected costs of PPI redress. However, it is possible the eventual outcome may differ from the current estimate and if this were to be material and adverse a further provision will be made, otherwise it is expected that any residual costs will be handled as part of normal operations. The provision also includes an estimate of our claims handling costs and those costs associated with claims that are subsequently referred to the FOS.

The following table details, by key assumption, actual data through to 31 December 2013, forecast assumptions used in the provision calculation and a sensitivity analysis illustrating the impact on the provision if the future expected assumptions prove too high or too low.

Assumption	Cumulative actual to 31.12.13	Future Expected	Sensitivity Analysis increase/decrease in provision	Cumulative actual to 31.12.12
Customer initiated claims received and processed ^a	970K	190K	50K = £90m	570K
Proactive mailing	660K	90K		100K
Response rate to proactive mailing	26%	25%	1% = £1m	27%
Average uphold rate per claim ^b	74%	73%	1% = £4m	70%
Average redress per valid claim ^c	£1,763	£1,726	£100 = £23m	£1,705

During 2013, 45% (2012: 44%) of monthly average complaints received had no PPI associated with them. Furthermore, of the complaints received in 2013, 54% (2012: 43%) were from Claims Management Companies (CMC's), with this proportion rising to 70% in December 2013

Notes

a Total claims received to date excluding those for which no PPI policy exists and excluding responses to proactive mailing. The volume for 31 December 2012 has been restated to exclude cases where there was no PPI policy: previously 1.1m.

b Average uphold rate per claim excluding those for which no PPI policy exists. The average uphold rate for 31 December 2012 has been restated to exclude cases where there was no PPI policy: previously 39%.

c Average redress stated on a per policy basis. The average redress for December 2012 has been restated on a policy basis: previously £2,750 (per valid claim basis).

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

Interest Rate Hedging Product Redress

On 29 June 2012, the FSA announced that a number of UK banks, including Barclays, would conduct a review and redress exercise in respect of interest rate hedging products sold on or after 1 December 2001 to retail clients or private customers categorised as being 'non-sophisticated' under the terms of the agreement. Barclays sold interest rate hedging products to approximately 4,000 retail clients or private customers within the relevant timeframe, of which approximately 2,900 have been categorised as non-sophisticated.

As at 31 December 2012, a provision of £850m had been recognised, reflecting management's best estimate of future redress to customers categorised as non-sophisticated and related costs. The estimate was based on an extrapolation of the results of an initial pilot exercise across the population. The provision recognised in the balance sheet as at 31 December 2012 was £814m, after utilisation of £36m, primarily related to administrative costs.

During 2013, additional cases have been reviewed and further guidance has been provided by the FCA providing additional information upon which to estimate the provision. As a result, an additional provision of £650m was recognised in June 2013, bringing the cumulative expense to £1,500m. The provision recognised as at 31 December 2013 was £1,169m, after cumulative utilisation of £331m, primarily relating to administrative costs and £87m of redress costs incurred. An initial redress outcome had been communicated to nearly 30% of customers categorised as non-sophisticated that are being covered by the review. It is intended that redress outcomes will have been communicated to all customers that have opted into the review by June 2014. The timing of resulting payments will depend on customer acceptances and response times.

The form of redress for each non-sophisticated customer is uncertain. It may result in a full refund, as though the product had never been purchased, or an alternative product such as a cap. In addition, not all customers will be entitled to redress because some sales will have complied with relevant regulatory requirements at the time of sale.

The ultimate redress cost is also dependent on:

- The fair value of the underlying product and is therefore variable if interest rates move significantly;
- The administrative costs of completing the review and redress exercise; and
- The length of time taken to complete the exercise, since an 8% p.a. interest charge is payable on product refund amounts.

No provision has been recognised in relation to claims from customers categorised as sophisticated, which are not covered by the redress exercise, or incremental consequential loss claims (above the 8% p.a. interest charge) from customers categorised as non-sophisticated. As at 31 December 2013, no significant incremental consequential loss claims from customers categorised as non-sophisticated had been agreed. These items will be monitored and future provisions will be recognised to the extent an obligation resulting in a probable outflow is identified.

While The Group expects that the provision as at 31 December 2013 will be sufficient to cover the full cost of completing the redress, the appropriate provision level will be kept under review and it is possible that the eventual costs could materially differ to the extent experience is not in line with current estimates.

Litigation

The Group is engaged in various legal proceedings, both in the UK and a number of other overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties please see Note 29. Legal, competition and regulatory matters

Redundancy & Restructuring

The provision relates to major restructuring initiatives across The Group. The increase in the provision during 2013 is largely due to the Transform programme and will likely be utilised within the next 12 months.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

28 Contingent liabilities and commitments

Accounting for contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

The following table summarises the nominal principal amount of contingent liabilities and commitments which are not recorded on balance sheet:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Guarantees and letters of credit pledged as collateral security	15,226	15,855	15,442	15,730
Performance guarantees, acceptances and endorsements	5,958	6,406	5,318	5,840
Contingent Liabilities	21,184	22,261	20,760	21,570
Documentary Credits and other short-term trade related transactions	780	1,027	570	744
Standby facilities, credit lines and other commitments^a	274,791	271,365	217,301	206,829

The Financial Services Compensation Scheme

The Financial Compensation Scheme (the FSCS) is the UK's Government backed compensation scheme for customers of authorised institutions that are unable to pay claims. It provides compensation to depositors in the event that UK licensed deposit taking institutions are unable to meet their claims. The FSCS raises levies on UK licensed deposit taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March).

Compensation has previously been paid out by the FSCS funded by loan facilities totalling approximately £18bn provided by HM Treasury to FSCS in support of FSCS's obligations to the depositors of banks declared in default. The interest rate chargeable on the loan and levied to the industry, is subject to a floor equal to the HM Treasury's own cost of borrowing, based on the relevant gilt rate (FSCS advises financial institutions to apply the 2024 UK Gilt rate published by the Debt Management Office to the Bradford & Bingley portion of the loan). The majority of the facility is expected to be recovered, with the exception of an estimated shortfall of £1bn which the FSCS intends to recover by levying the industry in three instalments across 2013, 2014 and 2015. In November 2013 HM Treasury communicated via the FSCS an additional expected shortfall in recoveries from Dunfermline Building Society, to be collected starting with an interim levy of £100m in 2014. Barclays has included an accrual of £148m in other liabilities as at 31 December 2013 (2012: £156m) in respect of the Barclays' portion of the total levies raised by the FSCS.

Further details on contingent liabilities relating to Legal Proceedings and Competition and Regulatory Matters are held in Note 29 Legal, competition and regulatory matters.

Note

^a Loan commitments have been revised to incorporate forward starting reverse repurchase agreements.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

29 Legal, competition and regulatory matters

Barclays PLC (BPLC), Barclays Bank PLC (BBPLC) and The Group face legal, competition and regulatory challenges, many of which are beyond our control. The extent of the impact on BPLC, BBPLC and The Group of the legal, competition and regulatory matters in which BPLC, BBPLC and The Group are or may in the future become involved cannot always be predicted but may materially impact our operations, financial results and condition and prospects.

Lehman Brothers

Background Information

In September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court) by Lehman Brothers Holdings Inc. (LBHI), the SIPA Trustee for Lehman Brothers Inc. (Trustee) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (Committee). All three motions challenged certain aspects of the transaction pursuant to which Barclays Capital Inc. (BCI) and other companies in The Group acquired most of the assets of Lehman Brothers Inc. (LBI) in September 2008, as well as the court order approving the sale (Sale). The claimants sought an order voiding the transfer of certain assets to BCI, requiring BCI to return to the LBI estate any excess value BCI allegedly received, and declaring that BCI is not entitled to certain assets that it claims pursuant to the Sale documents and order approving the Sale (Rule 60 Claims). In January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI had failed to deliver as required by the Sale documents and the court order approving the Sale (together with the Trustee's competing claims to those assets, Contract Claims).

Status

In February 2011, the Bankruptcy Court issued an Opinion rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favour and some in favour of The Group. In July 2011, the Bankruptcy Court entered final Orders implementing its Opinion. The Group and the Trustee each appealed the Bankruptcy Court's adverse rulings on the Contract Claims to the US District Court for the Southern District of New York (SDNY). LBHI and the Committee did not appeal the Bankruptcy Court's ruling on the Rule 60 Claims. After briefing and argument, the SDNY issued an Opinion in June 2012, reversing one of the Bankruptcy Court's rulings on the Contract Claims that had been adverse to The Group and affirming the Bankruptcy Court's other rulings on the Contract Claims. In July 2012, the SDNY issued an amended Opinion, correcting certain errors but not otherwise modifying the rulings, along with an agreed judgement implementing the rulings in the Opinion (Judgement). Under the Judgement, The Group is entitled to receive: (i) \$1.1bn (£0.7bn) from the Trustee in respect of "clearance box" assets (Clearance Box Assets); and (ii) property held at various institutions in respect of the exchange traded derivatives accounts transferred to BCI in the Sale (ETD Margin). The Trustee has appealed the SDNY's adverse rulings to the US Court of Appeals for the Second Circuit (Second Circuit). The current Judgement is stayed pending resolution of the Trustee's appeal.

Approximately \$4.3bn (£2.6bn) of the assets to which The Group is entitled as part of the acquisition had not been received by 31 December 2013, approximately \$2.7bn (£1.6bn) of which have been recognised as a receivable on the balance sheet as at that date. The unrecognised amount, approximately \$1.6bn (£1.0bn) as of 31 December 2013 effectively represents a provision against the uncertainty inherent in the litigation and potential post-appeal proceedings and issues relating to the recovery of certain assets held by an institution outside the US. To the extent The Group ultimately receives in the future assets with a value in excess of the approximately \$2.7bn (£1.6bn) recognised on the balance sheet as of 31 December 2013, it would result in a gain in income equal to such excess. It appears that the Trustee may dispute The Group's entitlement to certain of the ETD Margin even in the event The Group prevails in the pending Second Circuit appeal proceedings. Moreover, there is uncertainty regarding recoverability of a portion of the ETD Margin not yet delivered to The Group that is held by an institution outside the US. Thus, The Group cannot reliably estimate how much of the ETD Margin The Group is ultimately likely to receive. Nonetheless, if the SDNY's rulings are unaffected by future proceedings, but conservatively assuming The Group does not receive any ETD Margin that The Group believes may be subject to a post-appeal challenge by the Trustee or to uncertainty regarding recoverability, The Group will receive assets in excess of the \$2.7bn (£1.6bn) recognised as a receivable on The Group's balance sheet as at 31 December 2013. In a worst case scenario in which the Second Circuit reverses the SDNY's rulings and determines that The Group is not entitled to any of the Clearance Box Assets or ETD Margin, The Group estimates that, after taking into account its effective provision, its total losses would be approximately \$6bn (£3.6bn). Approximately \$3.3bn (£2bn) of that loss would relate to Clearance Box Assets and ETD Margin previously received by The Group and pre-judgement and post-judgement interest on such Clearance Box Assets and ETD Margin that would have to be returned or paid to the Trustee. In this context, The Group is satisfied with the valuation of the asset recognised on its balance sheet and the resulting level of effective provision.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

Other

In May 2013 Citibank N.A. (Citi) filed an action against BBPLC in the SDNY alleging breach of an indemnity contract. In November 2008, BBPLC provided an indemnity to Citi in respect of losses incurred by Citi between 17 and 19 September 2008 in performing foreign exchange settlement services for LBI as LBI's designated settlement member with CLS Bank International. Citi did not make a demand for payment under this indemnity until 1 February 2013 when it submitted a demand that included amounts which Barclays concluded it was not obligated to pay. Citi proceeded to file the action in May 2013, in which it claimed that Barclays was responsible for a "principal loss" of \$90.7m, but also claimed that BBPLC was obligated to pay Citi for certain alleged "funding losses" from September 2008 to December 2012. In a June 2013 filing with the Court, Citi claimed that, in addition to the \$90.7 million principal loss claim, it was also claiming funding losses in an amount of at least \$93.5 million, consisting of alleged interest losses of over \$55 million and alleged capital charges of \$38.5 million. Both parties filed motions for partial summary judgement, and in November 2013 the SDNY ruled that: (i) Citi may only claim statutory prejudgment interest from 1 February 2013, the date upon which it made its indemnification demand on BBPLC; (ii) to the extent that Citi can prove it incurred actual funding losses in the form of interest and capital charges between September 2008 and December 2012, it is entitled to recover these losses under the indemnity provided by BBPLC; and (iii) BBPLC is entitled under the contract to demonstrate, as a defence to the funding loss claim, that Citi had no funding losses between September 2008 and December 2012 due to the fact that it held LBI deposits during that period in an amount greater than the principal amount Citi claims it lost in performing CLS services for LBI between 17 and 19 September 2008.

American Depositary Shares

Background Information

BPLC, BBPLC and various current and former members of BPLC's Board of Directors have been named as defendants in five proposed securities class actions consolidated in the SDNY. The consolidated amended complaint, filed in February 2010, asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, alleging that registration statements relating to American Depositary Shares representing preferred stock, series 2, 3, 4 and 5 (Preferred Stock ADS) offered by BBPLC at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) BBPLC's portfolio of mortgage-related (including US subprime-related) securities, BBPLC's exposure to mortgage and credit market risk, and BBPLC's financial condition.

Status

In January 2011, the SDNY granted the defendants' motion to dismiss the complaint in its entirety, closing the case. In February 2011, the plaintiffs filed a motion asking the SDNY to reconsider in part its dismissal order, and, in May 2011, the SDNY denied in full the plaintiffs' motion for reconsideration. The plaintiffs appealed both the dismissal and the denial of the motion for reconsideration to the Second Circuit.

In August 2013, the Second Circuit upheld the dismissal of the plaintiffs' claims related to the series 2, 3 and 4 offerings, finding that they were time barred. However, the Second Circuit ruled that the plaintiffs should have been permitted to file a second amended complaint in relation to the series 5 offering claims, and remanded the action to the SDNY for further proceedings consistent with the Second Circuit's decision. In September 2013, the plaintiffs filed a second amended complaint, which purports to assert claims concerning the series 5 offering as well as dismissed claims concerning the series 2, 3 and 4 offerings, and the defendants have moved to dismiss.

BBPLC considers that these Preferred Stock ADS-related claims against it are without merit and is defending them vigorously.

Mortgage-Related Activity and Litigation

The Group's activities within the US residential mortgage sector during the period of 2005 through 2008 included sponsoring and underwriting approximately \$39bn of private-label securitisations; economic underwriting exposure of approximately \$34bn for other private-label securitisations; sales of approximately \$0.2bn of loans to government sponsored enterprises (GSEs); and sales of approximately \$3bn of loans to others. In addition, during this time period, approximately \$19.4bn of loans (net of approximately \$500m of loans sold during this period and subsequently repurchased) were also originated and sold to third parties by mortgage originator affiliates of an entity that The Group acquired in 2007 (Acquired Subsidiary).

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

In connection with The Group's loan sales and sponsored private-label securitisations, The Group provided certain loan level representations and warranties (R&Ws) generally relating to the underlying mortgages, the property, mortgage documentation and/or compliance with law. The Group was the sole provider of R&Ws with respect to approximately \$5bn of Group sponsored securitizations, approximately \$0.2bn of sales of loans to GSEs, and the approximately \$3bn of loans sold to others. In addition, the Acquired Subsidiary was the sole provider of R&Ws on all of the loans it sold to third parties. Other than approximately \$1bn of loans sold to others for which R&Ws expired prior to 2012, there are no stated expiration provisions applicable to the R&Ws made by The Group or the Acquired Subsidiary. The Group's R&Ws with respect to the \$3bn of loans sold to others are related to loans that were generally sold at significant discounts and contained more limited R&Ws than loans sold to GSEs, the loans sold by the Acquired Subsidiary or those provided by The Group on approximately \$5bn of The Group's sponsored securitisations discussed above. R&Ws on the remaining approximately \$34bn of The Group's sponsored securitisations were primarily provided by third party originators directly to the securitisation trusts with a Group subsidiary, as depositor to the securitisation trusts, providing more limited R&Ws. Under certain circumstances, The Group and/or the Acquired Subsidiary may be required to repurchase the related loans or make other payments related to such loans if the R&Ws are breached. The unresolved repurchase requests received on or before 31 December 2013 associated with all R&Ws made by The Group or the Acquired Subsidiary on loans sold to GSEs and others and private-label activities had an original unpaid principal balance of approximately \$1.7bn at the time of such sale.

Repurchase Claims

Substantially all of the unresolved repurchase requests discussed above relate to civil actions that have been commenced by the trustees for certain residential mortgage-backed securities (RMBS) securitisations, in which the trustees allege that The Group and/or the Acquired Subsidiary must repurchase loans that violated the operative R&Ws. The trustees in these actions have alleged that the operative R&Ws may have been violated with respect to a greater (but unspecified) amount of loans than the amount of loans previously stated in specific repurchase requests made by such trustees.

Residential Mortgage-Backed Securities Claims

The US Federal Housing Finance Agency (FHFA), acting for two US government-sponsored enterprises, Fannie Mae and Freddie Mac, filed lawsuits against 17 financial institutions in connection with Fannie Mae's and Freddie Mac's purchases of RMBS. The lawsuits allege, amongst other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. BBPLC and/or certain of its affiliates or former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of RMBS in which a Group subsidiary was lead or co-lead underwriter.

Both complaints demand, amongst other things: rescission and recovery of the consideration paid for the RMBS; and recovery for Fannie Mae's and Freddie Mac's alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to a number of other civil actions filed against BBPLC and/or certain of its affiliates by a number of other plaintiffs relating to purchases of RMBS. The Group considers that the claims against it are without merit and intends to defend them vigorously.

The original face amount of RMBS related to the claims against The Group in the FHFA actions and the other civil actions referred to above against The Group totalled approximately \$9bn, of which approximately \$2.6bn was outstanding as at 31 December 2013. Cumulative losses reported on these RMBS as at 31 December 2013 were approximately \$0.5bn. If The Group were to lose these actions The Group believes it could incur a loss of up to the outstanding amount of the RMBS at the time of judgement (taking into account further principal payments after 31 December 2013), plus any cumulative losses on the RMBS at such time and any interest, fees and costs, less the market value of the RMBS at such time and less any reserves taken to date. The Group has estimated the total market value of these RMBS as at 31 December 2013 to be approximately \$1.6bn. The Group may be entitled to indemnification for a portion of such losses.

Regulatory Inquiries

The Group has received inquiries, including subpoenas, from various regulatory and governmental authorities regarding its mortgage-related activities, and is cooperating with such inquiries.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

Devonshire Trust

Background Information

In January 2009, BBPLC commenced an action in the Ontario Superior Court seeking an order that its early terminations of two credit default swaps under an ISDA Master Agreement with the Devonshire Trust (Devonshire), an asset-backed commercial paper conduit trust, were valid. On the same day that Barclays terminated the swaps, Devonshire purported to terminate the swaps on the ground that BBPLC had failed to provide liquidity support to Devonshire's commercial paper when required to do so.

Status

In September 2011, the Ontario Superior Court ruled that BBPLC's early terminations were invalid, Devonshire's early terminations were valid and, consequently, Devonshire was entitled to receive back from BBPLC cash collateral of approximately C\$533m together with accrued interest. BBPLC appealed the Ontario Superior Court's decision to the Court of Appeal for Ontario. In July 2013, the Court of Appeal delivered its decision dismissing BBPLC's appeal. In September 2013, BBPLC sought leave to appeal the decision to the Supreme Court of Canada. In January 2014, the Supreme Court of Canada denied BBPLC's application for leave to appeal the decision of the Court of Appeal. BBPLC is considering its continuing options with respect to this matter. If the Court of Appeal's decision is unaffected by any future proceedings, BBPLC estimates that its loss would be approximately C\$500m, less any impairment provisions recognised to date. These provisions take full account of the Court of Appeal's decision.

LIBOR and other Benchmarks Civil Actions

Following the settlements of the investigations referred to below in "Investigations into LIBOR, ISDAfix, other benchmarks and foreign exchange rates", a number of individuals and corporates in a range of jurisdictions have threatened or brought civil actions against The Group in relation to LIBOR and/or other benchmarks. The majority of the USD LIBOR cases, which have been filed in various US jurisdictions, have been consolidated for pre-trial purposes in the US District Court for the Southern District of New York (MDL Court). The complaints are substantially similar and allege, amongst other things, that BBPLC and the other banks individually and collectively violated provisions of the US Sherman Act, the US Commodity Exchange Act (CEA), the US Racketeer Influenced and Corrupt Organizations Act (RICO) and various state laws by manipulating USD LIBOR rates. The lawsuits seek unspecified damages with the exception of three lawsuits, in which the plaintiffs are seeking a combined total of approximately \$910m in actual damages against all defendants, including BBPLC, plus punitive damages. Some of the lawsuits seek trebling of damages under the US Sherman Act and RICO. Certain of the civil actions are proposed class actions that purport to be brought on behalf of (amongst others) plaintiffs that (i) engaged in USD LIBOR-linked over-the-counter transactions (OTC Class); (ii) purchased USD LIBOR-linked financial instruments on an exchange (Exchange-Based Class); (iii) purchased USD LIBOR-linked debt securities (Debt Securities Class); (iv) purchased adjustable-rate mortgages linked to USD LIBOR; or (v) issued loans linked to USD LIBOR.

In March 2013, the MDL Court issued a decision dismissing the majority of claims against BBPLC and the other banks in three lead proposed class actions (Lead Class Actions) and three lead individual actions (Lead Individual Actions). Following the decision, plaintiffs in the Lead Class Actions sought permission to either file an amended complaint or appeal an aspect of the March 2013 decision. In August 2013, the MDL Court denied the majority of the motions presented in the Lead Class Actions. As a result, the Debt Securities Class has been dismissed entirely; the claims of the Exchange-Based Class have been limited to claims under the CEA; and the claims of the OTC Class have been limited to claims for unjust enrichment and breach of the implied covenant of good faith and fair dealing. Subsequent to the MDL Court's March 2013 decision, the plaintiffs in the Lead Individual Actions filed a new action in California state court (since moved to the MDL Court) based on the same allegations as those initially alleged in the proposed class action cases discussed above. Various plaintiffs may attempt to bring appeals of some or all of the MDL Court's decisions in the future.

Additionally, a number of other actions before the MDL Court remain stayed, pending further proceedings in the Lead Class Actions.

Until there are further decisions, the ultimate impact of the MDL Court's decisions will be unclear, although it is possible that the decisions will be interpreted by courts to affect other litigation, including the actions described below, some of which concern different benchmark interest rates.

BBPLC and other banks also have been named as defendants in other individual and proposed class actions filed in other US District Courts in which plaintiffs allege, similar to the plaintiffs in the USD LIBOR cases referenced above, that in various periods defendants either individually or collectively manipulated the USD LIBOR, Yen LIBOR, Euroyen TIBOR and/or EURIBOR rates. Plaintiffs generally allege that they transacted in loans, derivatives and/or other financial instruments whose values are affected by changes in USD LIBOR, Yen LIBOR, Euroyen TIBOR and/or EURIBOR, and assert claims under federal and state law. In October 2012, the US District Court for the Central District of California dismissed a proposed class action on behalf of holders of adjustable rate mortgages linked to USD LIBOR. Plaintiffs have appealed, and briefing of the appeal is complete.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

In addition, BPLC has been granted conditional leniency from the Antitrust Division of the US Department of Justice (DOJ-AD) in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR. As a result of that grant of conditional leniency, BPLC is eligible for (i) a limit on liability to actual rather than treble damages if damages were to be awarded in any civil antitrust action under US antitrust law based on conduct covered by the conditional leniency and (ii) relief from potential joint-and-several liability in connection with such civil antitrust action, subject to BPLC satisfying the DOJ-AD and the court presiding over the civil litigation of its satisfaction of its cooperation obligations.

BPLC, BBPLC and BCI have also been named as defendants along with four former officers and directors of BBPLC in a proposed securities class action pending in the SDNY in connection with BBPLC's role as a contributor panel bank to LIBOR. The complaint asserts claims under Sections 10(b) and 20(a) of the US Securities Exchange Act 1934, principally alleging that BBPLC's Annual Reports for the years 2006 to 2011 contained misstatements and omissions concerning (amongst other things) BBPLC's compliance with its operational risk management processes and certain laws and regulations. The complaint also alleges that BBPLC's daily USD LIBOR submissions constituted false statements in violation of US securities law. The complaint was brought on behalf of a proposed class consisting of all persons or entities that purchased BPLC-sponsored American Depositary Receipts on a US securities exchange between 10 July 2007 and 27 June 2012. In May 2013, the court granted BBPLC's motion to dismiss the complaint in its entirety. Plaintiffs have appealed, and briefing of the appeal is complete.

In addition to US actions, legal proceedings have been brought or threatened against The Group in connection with alleged manipulation of LIBOR and EURIBOR, in a number of jurisdictions. The first of which in England and Wales, brought by Graiseley Properties Limited, is set down for trial in the High Court of Justice in April 2014. The number of such proceedings, the benchmarks to which they relate, and the jurisdictions in which they may be brought are anticipated to increase over time.

Civil Actions in Respect of Foreign Exchange Trading

Since November 2013, a number of civil actions have been filed in the SDNY on behalf of proposed classes of plaintiffs alleging manipulation of foreign exchange markets under the US Sherman Antitrust Act and New York state law and naming several international banks as defendants, including BBPLC.

Please see below "Investigations into LIBOR, ISDAfix, other benchmarks and foreign exchange rates" for a discussion of competition and regulatory matters connected to "LIBOR and other Benchmark Civil Actions".

Investigations into LIBOR, ISDAfix, other Benchmarks and Foreign Exchange Rates

The Financial Conduct Authority (FCA), the US Commodity Futures Trading Commission (CFTC), the Securities Exchange Commission (SEC), the US Department of Justice (DOJ) Fraud Section (DOJ-FS) and Antitrust Division (DOJ-AD), the European Commission (Commission), the United Kingdom (UK) Serious Fraud Office (SFO), the Monetary Authority of Singapore, the Japan Financial Services Agency, the prosecutors' office in Trani, Italy and various US state attorneys general are amongst various authorities conducting investigations (Investigations) into submissions made by BBPLC and other financial institutions to the bodies that set or compile various financial benchmarks, such as LIBOR and EURIBOR.

On 27 June 2012, BBPLC announced that it had reached settlements with the Financial Services Authority (FSA) (as predecessor to the FCA), the CFTC and the DOJ-FS in relation to their Investigations and BBPLC agreed to pay total penalties of £290m, which were reflected in operating expenses for 2012. The settlements were made by entry into a Settlement Agreement with the FSA, a Non-Prosecution Agreement (NPA) with the DOJ-FS and a Settlement Order Agreement with the CFTC (CFTC Order). In addition, BBPLC was granted conditional leniency from the DOJ-AD in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR.

The terms of the Settlement Agreement with the FSA are confidential. However, the Final Notice of the FSA, which imposed a financial penalty of £59.5m, is publicly available on the website of the FCA. This sets out the FSA's reasoning for the penalty, references the settlement principles and sets out the factual context and justification for the terms imposed. Summaries of the NPA and the CFTC Order are set out below. The full text of the NPA and the CFTC Order are publicly available on the websites of the DOJ and the CFTC, respectively.

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Accruals, provisions, legal proceedings and contingent liabilities

In addition to a \$200m civil monetary penalty, the CFTC Order requires BBPLC to cease and desist from further violations of specified provisions of the US Commodity Exchange Act and take specified steps to ensure the integrity and reliability of its benchmark interest rate submissions, including LIBOR and EURIBOR, and improve related internal controls. Amongst other things, the CFTC Order requires BBPLC to:

- make its submissions based on certain specified factors, with BBPLC's transactions being given the greatest weight, subject to certain specified adjustments and considerations;
- implement firewalls to prevent improper communications including between traders and submitters;
- prepare and retain certain documents concerning submissions and retain relevant communications;
- implement auditing, monitoring and training measures concerning its submissions and related processes;
- make regular reports to the CFTC concerning compliance with the terms of the CFTC Order;
- use best efforts to encourage the development of rigorous standards for benchmark interest rates; and
- continue to cooperate with the CFTC's ongoing investigation of benchmark interest rates.

As part of the NPA, BBPLC agreed to pay a \$160m penalty. In addition, the DOJ agreed not to prosecute BBPLC for any crimes (except for criminal tax violations, as to which the DOJ cannot and does not make any agreement) related to BBPLC's submissions of benchmark interest rates, including LIBOR and EURIBOR, contingent upon BBPLC's satisfaction of specified obligations under the NPA. In particular, under the NPA, BBPLC agreed for a period of two years from 26 June 2012, amongst other things, to:

- commit no US crime whatsoever;
- truthfully and completely disclose non-privileged information with respect to the activities of BBPLC, its officers and employees, and others concerning all matters about which the DOJ inquires of it, which information can be used for any purpose, except as otherwise limited in the NPA;
- bring to the DOJ's attention all potentially criminal conduct by BBPLC or any of its employees that relates to fraud or violations of the laws governing securities and commodities markets; and
- bring to the DOJ's attention all criminal or regulatory investigations, administrative proceedings or civil actions brought by any governmental authority in the US by or against BBPLC or its employees that alleges fraud or violations of the laws governing securities and commodities markets.

BBPLC also agreed to cooperate with the DOJ and other government authorities in the US in connection with any investigation or prosecution arising out of the conduct described in the NPA, which commitment shall remain in force until all such investigations and prosecutions are concluded. BBPLC also continues to cooperate with the other ongoing investigations.

Following the settlements announced in June 2012, 31 US state attorneys general commenced their own investigations into LIBOR, EURIBOR and the Tokyo Interbank Offered Rate. The New York Attorney General, on behalf of this coalition of attorneys general, issued a subpoena in July 2012 to BBPLC (and subpoenas to a number of other banks) to produce wide-ranging information and has since issued additional information requests to BBPLC for both documents and transactional data. BBPLC is responding to these requests on a rolling basis. In addition, following the settlements the SFO announced in July 2012 that it had decided to investigate the LIBOR matter, in respect of which BBPLC has received and continues to respond to requests for information.

The Commission has also been conducting investigations into the manipulation of, among other things, EURIBOR. On 4 December 2013, the Commission announced that it has reached a settlement with The Group and a number of other banks in relation to anti-competitive conduct concerning EURIBOR. The Group had voluntarily reported the EURIBOR conduct to the Commission and cooperated fully with the Commission's investigation. In recognition of this cooperation, The Group was granted full immunity from the financial penalties that would otherwise have applied.

The CFTC and the FCA are also conducting separate investigations into historical practices with respect to ISDAfix, amongst other benchmarks. BBPLC has received and continues to respond to subpoenas and requests for information.

Various regulatory and enforcement authorities, including the FCA in the UK, the CFTC and the DOJ in the US and the Hong Kong Monetary Authority have indicated that they are investigating foreign exchange trading, including possible attempts to manipulate certain benchmark currency exchange rates or engage in other activities that would benefit their trading positions. Certain of these investigations involve multiple market participants in various countries. BBPLC has received enquiries from certain of these authorities related to their particular investigations, and from other regulators interested in foreign exchange issues. The Group is reviewing its foreign exchange trading covering a several year period through October 2013 and is cooperating with the relevant authorities in their investigations.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

For a discussion of litigation arising in connection with these investigations see “LIBOR and other Benchmarks Civil Actions” and “Civil Actions in Respect of Foreign Exchange Trading” above.

FERC

Background Information

The US Federal Energy Regulatory Commission (FERC) Office of Enforcement investigated The Group’s power trading in the western US with respect to the period from late 2006 through 2008. In October 2012, FERC issued an Order to Show Cause and Notice of Proposed Penalties (Order and Notice) against BBPLC and four of its former traders in relation to this matter. In the Order and Notice, FERC asserted that BBPLC and its former traders violated FERC’s Anti-Manipulation Rule by manipulating the electricity markets in and around California from November 2006 to December 2008, and proposed civil penalties and profit disgorgement to be paid by BBPLC. In July 2013, FERC issued an Order Assessing Civil Penalties in which it assessed a \$435m civil penalty against BBPLC and ordered BBPLC to disgorge an additional \$34.9m of profits plus interest (both of which are consistent with the amounts proposed in the Order and Notice).

Status

In October 2013, FERC filed a civil action against BBPLC and its former traders in the US District Court in California seeking to collect the penalty and disgorgement amount. FERC’s complaint in the civil action reiterates the allegations previously made by FERC in its October 2012 Order and Notice and its July 2013 Order Assessing Civil Penalties. BBPLC is vigorously defending this action. BBPLC and its former traders have filed a motion to dismiss the action for improper venue or, in the alternative, to transfer it to the SDNY, and a motion to dismiss the complaint for failure to state a claim. In September 2013, BBPLC was contacted by the criminal division of the US Attorney’s Office in the Southern District of New York and advised that such office is looking at the same conduct at issue in the FERC matter.

BDC Finance L.L.C.

Background Information

In October 2008, BDC Finance L.L.C. (BDC) filed a complaint in the Supreme Court of the State of New York (NY Supreme Court) alleging that BBPLC breached an ISDA Master Agreement and a Total Return Loan Swap Master Confirmation (Agreement) governing a total return swap transaction when it failed to transfer approximately \$40m of alleged excess collateral in response to BDC’s October 2008 demand (Demand). BDC asserts that under the Agreement BBPLC was not entitled to dispute the Demand before transferring the alleged excess collateral and that even if BBPLC was entitled to do so, it failed to dispute the Demand. BDC demands damages totalling \$297m plus attorneys’ fees, expenses, and prejudgement interest.

Status

In August 2012, the NY Supreme Court granted partial summary judgement for BBPLC, ruling that BBPLC was entitled to dispute the Demand, before transferring the alleged excess collateral, but determining that a trial was required to determine whether BBPLC actually did so. The parties cross-appealed to the Appellate Division of the NY Supreme Court (Appellate Division). In October 2013, the Appellate Division reversed the NY Supreme Court’s grant of partial summary judgement to BBPLC, and instead granted BDC’s motion for partial summary judgement, holding that BBPLC breached the Agreement. The Appellate Division did not rule on the amount of BDC’s damages, which has not yet been determined by the NY Supreme Court. On 25 November 2013, BBPLC filed a motion with the Appellate Division for reargument or, in the alternative, for leave to appeal to the New York Court of Appeals. In January 2014, the Appellate Division issued an order denying the motion for reargument and granting the motion for leave to appeal to the New York Court of Appeals. In September 2011, BDC’s investment advisor, BDCM Fund Adviser, L.L.C. and its parent company, Black Diamond Capital Holdings, L.L.C. also sued BBPLC and BCI in Connecticut state court for unspecified damages allegedly resulting from BBPLC’s conduct relating to the Agreement, asserting claims for violation of the Connecticut Unfair Trade Practices Act and tortious interference with business and prospective business relations. The parties have agreed to a stay of that case.

Interchange Investigations

The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate Visa and MasterCard credit and debit interchange rates. BPLC receives interchange fees, as a card issuer, from providers of card acquiring services to merchants. The key risks arising from the investigations comprise the potential for fines imposed by competition authorities, litigation and proposals for new legislation. BPLC may be required to pay fines or damages and could be affected by legislation amending interchange rules.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

Interest Rate Hedging Products

See Note 27 Provisions

Credit Default Swap (CDS) Antitrust Investigations

Both the Commission and the DOJ-AD have commenced investigations in the CDS market (in 2011 and 2009, respectively). In July 2013 the Commission addressed a Statement of Objections to BBPLC and 12 other banks, Markit and ISDA. The case relates to concerns that certain banks took collective action to delay and prevent the emergence of exchange traded credit derivative products. If the Commission does reach a decision in this matter it has indicated that it intends to impose sanctions. The Commission's sanctions can include fines. The DOJ-AD's investigation is a civil investigation and relates to similar issues. Proposed class actions alleging similar issues have also been filed in the US. The timing of these cases is uncertain.

Swiss / US Tax Programme

In August 2013, the DOJ and the Swiss Federal Department of Finance announced the Programme for Non-Prosecution Agreements or Non-Targeted letters for Swiss Banks (Programme). This agreement is the consequence of a long-running dispute between the US and Switzerland regarding tax obligations of US Related Accounts held in Swiss banks.

Barclays Bank (Suisse) SA and Barclays Bank plc Geneva Branch are participating in the Programme, which requires a structured review of US accounts. This review is ongoing and the outcome of the review will determine whether any agreement will be entered into or sanction applied to Barclays Bank (Suisse) SA and Barclays Bank plc Geneva Branch. The deadline for completion of the review is 30 April 2014.

Investigations into Certain Agreements

The FCA has investigated certain agreements, including two advisory services agreements entered into by BBPLC with Qatar Holding LLC (Qatar Holding) in June and October 2008 respectively, and whether these may have related to BPLC's capital raisings in June and November 2008.

The FCA issued warning notices (Warning Notices) against BPLC and BBPLC in September 2013. The existence of the advisory services agreement entered into in June 2008 was disclosed but the entry into the advisory services agreement in October 2008 and the fees payable under both agreements, which amount to a total of £322m payable over a period of five years, were not disclosed in the announcements or public documents relating to the capital raisings in June and November 2008. While the Warning Notices consider that BPLC and BBPLC believed at the time that there should be at least some unspecified and undetermined value to be derived from the agreements, they state that the primary purpose of the agreements was not to obtain advisory services but to make additional payments, which would not be disclosed, for the Qatari participation in the capital raisings. The Warning Notices conclude that BPLC and BBPLC were in breach of certain disclosure-related listing rules and BPLC was also in breach of Listing Principle 3 (the requirement to act with integrity towards holders and potential holders of the company's shares). In this regard, the FCA considers that BPLC and BBPLC acted recklessly. The financial penalty in the Warning Notices against The Group is £50m. BPLC and BBPLC continue to contest the findings.

The FCA proceedings are now subject to a stay pending progress in an investigation by the SFO's Fraud Office into the same agreements. The SFO's investigation is at an earlier stage and The Group has received and has continued to respond to requests for further information.

The DOJ and the SEC are undertaking an investigation into whether The Group's relationships with third parties who assist BPLC to win or retain business are compliant with the United States Foreign Corrupt Practices Act. They are also investigating the agreements referred to above including the two advisory services agreements. The US Federal Reserve has requested to be kept informed.

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

General

The outcomes of the matters disclosed in this note are difficult to predict. The Group has not disclosed an estimate of the potential financial effect on The Group of contingent liabilities arising from these matters where it is not practicable to do so or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where The Group is able reliably to estimate probable losses. The Group may incur significant expense in connection with these matters, regardless of the ultimate outcome; furthermore these matters could expose The Group to any of the following: substantial monetary damages and fines; other penalties and injunctive relief; potential for additional civil or private litigation; potential for criminal prosecution in certain circumstances; potential regulatory restrictions on The Group's business; and/or a negative effect on The Group's reputation. There is also a risk that such investigations or proceedings may give rise to changes in law or regulation as part of a wider response by relevant law makers and regulators. Any of these risks, should they materialise, could have an adverse impact on The Group's operations, financial results and condition and prospects.

As mentioned above, The Group is subject to a NPA entered into with the DOJ in connection with the LIBOR investigations. Under the NPA, The Group has agreed that, for a period of two years from 26 June 2012, it will, amongst other things, commit no US crime whatsoever and will comply with certain obligations to provide information to and co-operate with US authorities. A breach of any of the NPA provisions could lead to prosecutions in relation to The Group's benchmark interest rate submissions and could have significant consequences for The Group's current and future business operations in the US.

The Group is engaged in various other legal, competition and regulatory matters both in the UK and a number of overseas jurisdictions. It is subject to legal proceedings by and against The Group which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which The Group is or has been engaged.

At the present time, The Group does not expect the ultimate resolution of any of these other matters not disclosed in this note to which it is a party to have a material adverse effect on its financial position. The Group has not disclosed an estimate of the potential financial effect on The Group of contingent liabilities where it is not practicable to do so or, in cases where it is practicable, where disclosure could prejudice conduct of matters. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter or matters will not be material to The Group's results of operations or cash flow for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

Notes to the financial statements

Capital instruments, equity and reserves

Capital instruments, equity and reserves

The notes included in this section focus on The Group's loan capital and shareholders equity including issued share capital, retained earnings, other equity balances and interests of minority shareholders in our subsidiary entities (non-controlling interests). For more information on capital management and how The Group maintains sufficient capital to meet our regulatory requirements see pages 99 to 103.

30 Subordinated liabilities

Accounting for subordinated debt

Subordinated debt is measured at amortised cost using the effective interest method under IAS 39.

Subordinated liabilities include accrued interest and comprise undated and dated loan capital as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Undated subordinated liabilities	6,127	6,740	5,929	6,552
Dated subordinated liabilities	16,122	17,682	15,053	16,389
Total subordinated liabilities	22,249	24,422	20,982	22,941

None of The Group's loan capital is secured. Regulatory capital differs from the amounts recorded in the balance sheet 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.

Undated subordinated liabilities

	Initial call date	The Group		The Bank	
		2013	2012	2013	2012
		£m	£m	£m	£m
Barclays Bank PLC issued					
Tier One Notes (TONs)					
6% Callable Perpetual Core Tier One Notes	2032	105	116	105	116
6.86% Callable Perpetual Core Tier One Notes (US\$681m)	2032	613	720	613	720
Reserve Capital Instruments (RCIs)					
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US\$533m)	2016	368	393	368	393
7.434% Step-up Callable Perpetual Reserve Capital Instruments (US\$347m)	2017	244	261	244	261
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	2019	114	117	114	117
14% Step-up Callable Perpetual Reserve Capital Instruments	2019	2,951	3,298	2,951	3,298
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	2036	107	113	107	113
Undated Notes					
6.875% Undated Subordinated Notes	2015	145	152	145	152
6.375% Undated Subordinated Notes	2017	146	153	146	153
7.7% Undated Subordinated Notes (US\$99m)	2018	67	72	67	72
8.25% Undated Subordinated Notes	2018	151	165	151	165
7.125% Undated Subordinated Notes	2020	198	215	198	215
6.125% Undated Subordinated Notes	2027	223	233	223	233
Junior Undated Floating Rate Notes (US\$121m)	Any interest payment date	66	75	122	133
Undated Floating Rate Primary Capital Notes Series 3	Any interest payment date	145	146	145	146
Bonds					
9.25% Perpetual Subordinated Bonds (ex-Woolwich PLC)	2021	91	99	91	99
9% Permanent Interest Bearing Capital Bonds	At any time	42	47	42	47
Loans					
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	2028	39	47	39	47
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	2028	58	72	58	72
Barclays SLCSM Funding B.V. guaranteed by the Bank					
6.140% Fixed Rate Guaranteed Perpetual Subordinated Notes	2015	254	246	-	-
Total undated subordinated liabilities		6,127	6,740	5,929	6,552

Notes to the financial statements

Capital instruments, equity and reserves

Undated loan capital

Undated loan capital is issued by the Bank and its subsidiaries for the development and expansion of their business and to strengthen their capital bases. The principal terms of the undated loan capital are described below:

Subordination

All undated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital in the following order: Junior Undated Floating Rate Notes; other issues of Undated Notes, Bonds and Loans-ranking pari passu with each other; followed by TONs and RCIs-ranking pari passu with each other.

Interest

All undated loan capital bears a fixed rate of interest until the initial call date, with the exception of the 9% Bonds which are fixed for the life of the issue, and the Junior and Series 3 Undated Notes which are floating rate.

After the initial call date, in the event that they are not redeemed, the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes will bear interest at rates fixed periodically in advance for five year periods based on market rates. All other undated loan capital except the two floating rate Undated Notes will bear interest, and the two floating rate Undated Notes currently bear interest, at rates fixed periodically in advance based on London interbank rates.

Payment of interest

Barclays Bank PLC is not obliged to make a payment of interest on its Undated Notes, Bonds and Loans excluding the 7.7% Undated Notes, 8.25% Undated Notes, 9.25% Bonds and 6.140% Perpetual Notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. The Bank is not obliged to make a payment of interest on its 9.25% Perpetual Subordinated Bonds if, in the immediately preceding 12 months' interest period, a dividend has not been paid on any class of its share capital. Interest not so paid becomes payable in each case if such a dividend is subsequently paid or in certain other circumstances. During the year, the Bank declared and paid dividends on its ordinary shares and on all classes of preference shares.

No payment of principal or any interest may be made unless the Bank satisfies a specified solvency test.

The Bank may elect to defer any payment of interest on the 7.7% Undated Notes and 8.25% Undated Notes. Until such time as any deferred interest has been paid in full, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares, preference shares, or other share capital or satisfy any payments of interest or coupons on certain other junior obligations.

The Issuer and the Bank may elect to defer any payment of interest on the 6.140% Perpetual Notes. However, any deferred interest will automatically become immediately due and payable on the earlier of: (i) the date on which any dividend or other distribution or interest or other payment is made in respect of any pari passu or any junior obligations or on which any pari passu or any junior obligations are purchased, (ii) the date of redemption or purchase of the 6.140% Perpetual Notes and (iii) certain other events including bankruptcy, liquidation or winding up of the Issuer or the Bank.

The Bank may elect to defer any payment of interest on the RCIs. Any such deferred payment of interest must be paid on the earlier of: (i) the date of redemption of the RCIs, (ii) the coupon payment date falling on or nearest to the tenth anniversary of the date of deferral of such payment, and (iii) in respect of the 14% RCIs only, substitution. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

The Bank may elect to defer any payment of interest on the TONs if it determines that it is, or such payment would result in it being, in non-compliance with capital adequacy requirements and policies of the PRA. Any such deferred payment of interest will only be payable on a redemption of the TONs. Until such time as the Bank next makes a payment of interest on the TONs, neither the Bank nor Barclays PLC may (i) declare or pay a dividend, subject to certain exceptions, on any of their respective ordinary shares or Preference Shares, or make payments of interest in respect of the Bank's Reserve Capital Instruments and (ii) certain restrictions on the redemption, purchase or reduction of their respective share capital and certain other securities also apply.

Repayment

All undated loan capital is repayable, at the option of the Bank generally in whole at the initial call date and on any subsequent coupon or interest payment date or in the case of the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes on any fifth anniversary after the initial call date. In addition, each issue of undated loan capital is repayable, at the option of the Bank, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest. Any repayments require the prior approval of the PRA.

Other

All issues of undated loan capital have been made in the Euro currency market and/or under Rule 144A, and no issues have been registered under the US Securities Act of 1933.

All issues of undated subordinated liabilities are non-convertible.

Notes to the financial statements

Capital instruments, equity and reserves

Dated subordinated liabilities			The Group		The Bank	
			2013	2012	2013	2012
	Initial call date	Maturity date	£m	£m	£m	£m
Barclays Bank PLC issued						
5.015% Subordinated Notes (US\$150m)		2013	-	96	-	96
4.875% Subordinated Notes (€750m)		2013	-	636	-	636
Callable Fixed/Floating Rate Subordinated Notes (€1,000m)	2014	2019	866	861	866	861
4.38% Fixed Rate Subordinated Notes (US\$75m)		2015	49	52	49	52
4.75% Fixed Rate Subordinated Notes (US\$150m)		2015	97	103	97	103
5.14% Lower Tier 2 Notes (US\$1,094m)	2015	2020	706	885	706	885
6.05% Fixed Rate Subordinated Notes (US\$2,250m)		2017	1,073	1,635	1,073	1,635
Floating Rate Subordinated Notes (€40m)		2018	33	33	33	33
6% Fixed Rate Subordinated Notes (€1,750m)		2018	1,554	1,519	1,554	1,519
CMS-Linked Subordinated Notes (€100m)		2018	87	85	87	85
CMS-Linked Subordinated Notes (€135m)		2018	116	114	116	114
Fixed/Floating Rate Subordinated Callable Notes	2018	2023	570	608	570	608
7.75% Contingent Capital Notes (US\$1,000m)	2018	2023	793	-	793	-
Floating Rate Subordinated Notes (€50m)		2019	41	40	41	40
6% Fixed Rate Subordinated Notes (€1,500m)		2021	1,356	1,333	1,356	1,333
9.5% Subordinated Bonds (ex-Woolwich plc)		2021	306	338	306	338
Subordinated Floating Rate Notes (€100m)		2021	82	80	82	80
10% Fixed Rate Subordinated Notes		2021	2,265	2,446	2,265	2,446
10.179% Fixed Rate Subordinated Notes (US\$1,521m)		2021	991	1,133	991	1,133
Subordinated Floating Rate Notes (€50m)		2022	42	41	42	41
6.625% Fixed Rate Subordinated Notes (€1,000m)		2022	957	954	957	954
7.625% Contingent Capital Notes (US\$3,000m)		2022	2,013	2,252	2,013	2,252
Subordinated Floating Rate Notes (€50m)		2023	42	41	42	41
5.75% Fixed Rate Subordinated Notes		2026	742	810	742	810
5.4% Reverse Dual Currency Subordinated Loan (Yen 15,000m)		2027	74	90	74	90
6.33% Subordinated Notes		2032	55	62	55	62
Subordinated Floating Rate Notes (€100m)		2040	83	82	83	82
Other loans from subsidiaries			-	-	60	60
Absa Bank Limited issued						
6.25% CPI-linked Subordinated Callable Notes (ZAR 1,886m)	2013	2018	-	169	-	-
8.8% Subordinated Fixed Rate Callable Notes (ZAR 1,725m)	2014	2019	102	136	-	-
6.00% CPI-linked Subordinated Callable Notes (ZAR 3,000m)	2014	2019	228	275	-	-
8.1% Subordinated Callable Notes (ZAR 2,000m)	2015	2020	121	156	-	-
10.28% Subordinated Callable Notes (ZAR 600m)	2017	2022	35	44	-	-
Subordinated Callable Notes (ZAR 400m)	2017	2022	23	29	-	-
Subordinated Callable Notes (ZAR 1,805m)	2017	2022	105	132	-	-
Subordinated Callable Notes (ZAR 2,007m)	2018	2023	116	147	-	-
8.295% Subordinated Callable Notes (ZAR 1,188m)	2018	2023	69	87	-	-
5.50% CPI-linked Subordinated Callable Notes (ZAR 1,500m)		2028	107	129	-	-
Other capital issued by Barclays Africa and Japan		2013-2018	223	49	-	-
Total subordinated liabilities			16,122	17,682	15,053	16,389

Dated loan capital

Dated loan capital is issued by the Bank and respective subsidiaries for the development and expansion of their business and to strengthen their respective capital bases. The principal terms of the dated loan capital are described below:

Notes to the financial statements

Capital instruments, equity and reserves

Subordination

All dated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors but before the claims of the undated loan capital and the holders of their equity. The dated loan capital issued by subsidiaries, are similarly subordinated.

Interest

Interest on the Floating Rate Notes are fixed periodically in advance, based on the related interbank or local central bank rates.

Interest on the 7.75% Contingent Capital Notes is fixed until the call date. After the call date, in the event that it is not redeemed, the interest rate will be re-set and fixed until maturity based on a market rate.

Repayment

Those Notes with a call date are repayable at the option of the issuer, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole. The remaining dated loan capital outstanding at 31 December 2013 is redeemable only on maturity, subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law or, to certain changes in legislation or regulations.

Any repayments prior to maturity require, in the case of the Bank, the prior approval of the PRA, or in the case of the overseas issues, the approval of the local regulator for that jurisdiction.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

The other capital issued by Barclays Kenya, Botswana and Zambia includes amounts of £14m (2012: £15m) issued by Barclays Botswana that are convertible. These are repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part and some only in whole.

Other

The 7.625% Contingent Capital Notes will be automatically transferred from investors to Barclays PLC (or another entity within The Group) for nil consideration should the Core Tier 1 or Common Equity Tier 1 capital of The Group (as relevant at the time) fall below 7.0% on certain dates as specified in the terms.

The 7.75% Contingent Capital Notes will be automatically written-down and investors will lose their entire investment in the notes should the Core Tier 1 or Common Equity Tier 1 capital of The Group (as relevant at the time) fall below 7.0% on certain dates as specified in the terms.

The 5.14% Lower Tier 2 Notes and the 7.625% Contingent Capital Notes and the 7.75% Contingent Capital Notes were registered under the US Securities Act of 1933. All other issues of dated loan capital have been made in the Euro currency market, local markets and/or under Rule 144A.

31 Ordinary shares, share premium, and other equity

Ordinary Shares

The issued ordinary share capital of Barclays Bank PLC, as at 31 December 2013, comprised 2,342 million ordinary shares of £1 each (2012: 2,342 million).

Preference Shares

The issued preference share capital of Barclays Bank PLC, as at 31 December 2013, comprised 1,000 Sterling Preference Shares of £1 each (2012: 1,000); 240,000 Euro Preference Shares of €100 each (2012: 240,000); 75,000 Sterling Preference Shares of £100 each (2012: 75,000); 100,000 US Dollar Preference Shares of US\$100 each (2012: 100,000) and 237 million US Dollar Preference Shares of US\$0.25 each (2012: 237 million).

Share capital	2013	2012
	£m	£m
Called up ordinary share capital, allotted and fully paid		
As at 1 January	2,342	2,342
As at 31 December	2,342	2,342
Called up preference share capital, allotted and fully paid as at 1 January and 31 December	60	60
Called up share capital	2,402	2,402

Notes to the financial statements

Capital instruments, equity and reserves

Share premium	2013 £m	2012 £m
As at 1 January	12,092	12,092
As at 31 December	12,092	12,092

Sterling £1 Preference Shares

1,000 Sterling cumulative callable preference shares of £1 each (the £1 Preference Shares) were issued on 31 December 2004 at nil premium.

The £1 Preference Shares entitle the holders thereof to receive Sterling cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a rate reset semi-annually equal to the Sterling interbank offered rate for six-month sterling deposits.

Barclays Bank PLC shall be obliged to pay such dividends if: (1) it has profits available for the purpose of distribution under the Companies Act 2006 as at each dividend payment date; and (2) it is solvent on the relevant dividend payment date, provided that a capital regulations condition is satisfied on such dividend payment date. The dividends shall not be due and payable on the relevant dividend payment date except to the extent that Barclays Bank PLC could make such payment and still be solvent immediately thereafter. Barclays Bank PLC shall be considered solvent on any date if: (1) it is able to pay its debts to senior creditors as they fall due; and (2) its auditors have reported within the previous six months that its assets exceed its liabilities. If Barclays Bank PLC shall not pay, or shall pay only in part, a dividend for a period of seven days or more after the due date for payment, the holders of the £1 Preference Shares may institute proceedings for the winding-up of Barclays Bank PLC. No remedy against Barclays Bank PLC shall be available to the holder of any £1 Preference Shares for the recovery of amounts owing in respect of £1 Preference Shares other than the institution of proceedings for the winding-up of Barclays Bank PLC and/or proving in such winding-up.

On a winding-up or other return of capital (other than a redemption or purchase by Barclays Bank PLC of any of its issued shares, or a reduction of share capital, permitted by the Articles of Barclays Bank PLC and under applicable law), the assets of Barclays Bank PLC available to shareholders shall be applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of Barclays Bank PLC then in issue ranking junior to the £1 Preference Shares on such a return of capital and *pari passu* on such a return of capital with the holders of any other class of shares in the capital of Barclays Bank PLC then in issue (other than any class of shares in the capital of Barclays Bank PLC then in issue ranking in priority to the £1 Preference Shares on a winding-up or other such return of capital), in payment to the holders of the £1 Preference Shares of a sum equal to the aggregate of: (1) an amount equal to the dividends accrued thereon for the then current dividend period (and any accumulated arrears thereof) to the date of the commencement of the winding-up or other such return of capital; and (2) an amount equal to £1 per £1 Preference Share. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the £1 Preference Shares will have no right or claim to any of the remaining assets of Barclays Bank PLC and will not be entitled to any further participation in such return of capital.

The £1 Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, subject to the Companies Act 2006 and its Articles. Holders of the £1 Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC.

Euro Preference Shares

100,000 Euro 4.875% non-cumulative callable preference shares of €100 each (the 4.875% Preference Shares) were issued on 8 December 2004 for a consideration of €993.6m (£688.4m), of which the nominal value was €10m and the balance was share premium. The 4.875% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.875% per annum on the amount of €10,000 per preference share until 15 December 2014, and thereafter quarterly at a rate reset quarterly equal to 1.05% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.875% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2014, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

140,000 Euro 4.75% non-cumulative callable preference shares of €100 each (the 4.75% Preference Shares) were issued on 15 March 2005 for a consideration of €1,383.3m (£966.7m), of which the nominal value was €14m and the balance was share premium. The 4.75% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.75% per annum on the amount of €10,000 per preference share until 15 March 2020, and thereafter quarterly at a rate reset quarterly equal to 0.71% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 March 2020, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

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Sterling Preference Shares

75,000 Sterling 6.0% non-cumulative callable preference shares of £100 each (the 6.0% Preference Shares) were issued on 22 June 2005 for a consideration of £743.7m, of which the nominal value was £7.5m and the balance was share premium. The 6.0% Preference Shares entitle the holders thereof to receive Sterling non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 6.0% per annum on the amount of £10,000 per preference share until 15 December 2017, and thereafter quarterly at a rate reset quarterly equal to 1.42% per annum above the London interbank offered rate for three-month Sterling deposits.

The 6.0% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2017, and on each dividend payment date thereafter at £10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

US Dollar Preference Shares

100,000 US Dollar 6.278% non-cumulative callable preference shares of US\$100 each (the 6.278% Preference Shares), represented by 100,000 American Depositary Shares, Series 1, were issued on 8 June 2005 for a consideration of US\$995.4m (£548.1m), of which the nominal value was US\$10m and the balance was share premium. The 6.278% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a fixed rate of 6.278% per annum on the amount of US\$10,000 per preference share until 15 December 2034, and thereafter quarterly at a rate reset quarterly equal to 1.55% per annum above the London interbank offered rate for three-month US Dollar deposits.

The 6.278% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2034, and on each dividend payment date thereafter at US\$10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

30 million US Dollar 6.625% non-cumulative callable preference shares of US\$0.25 each (the 6.625% Preference Shares), represented by 30 million American Depositary Shares, Series 2, were issued on 25 and 28 April 2006 for a consideration of US\$727m (£406m), of which the nominal value was US\$7.5m and the balance was share premium. The 6.625% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 6.625% per annum on the amount of US\$25 per preference share.

The 6.625% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on any dividend payment date at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

55 million US Dollar 7.1% non-cumulative callable preference shares of US\$0.25 each (the 7.1% Preference Shares), represented by 55 million American Depositary Shares, Series 3, were issued on 13 September 2007 for a consideration of US\$1,335m (£657m), of which the nominal value was US\$13.75m and the balance was share premium. The 7.1% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.1% per annum on the amount of US\$25 per preference share.

The 7.1% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on any dividend payment date at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

46 million US Dollar 7.75% non-cumulative callable preference shares of US\$0.25 each (the 7.75% Preference Shares), represented by 46 million American Depositary Shares, Series 4, were issued on 7 December 2007 for a consideration of US\$1,116m (£550m), of which the nominal value was US\$11.5m and the balance was share premium. The 7.75% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.75% per annum on the amount of US\$25 per preference share.

The 7.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 March 2013, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

106 million US Dollar 8.125% non-cumulative callable preference shares of US\$0.25 each (the 8.125% Preference Shares), represented by 106 million American Depositary Shares, Series 5, were issued on 11 April 2008 and 25 April 2008 for a total consideration of US\$2,650m (£1,345m), of which the nominal value was US\$26.5m and the balance was share premium. The 8.125% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 8.125% per annum on the amount of US\$25 per preference share.

The 8.125% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 June 2013, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

No redemption or purchase of any 4.875% Preference Shares, the 4.75% Preference Shares, the 6.0% Preference Shares, the 6.278% Preference Shares, the 6.625% Preference Shares, the 7.1% Preference Shares, the 7.75% Preference Shares and the 8.125% Preference Shares (together, the

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Preference Shares) may be made by Barclays Bank PLC without the prior notification to the UK FSA and any such redemption will be subject to the Companies Act 2006 and the Articles of Barclays Bank PLC.

On a winding-up of Barclays Bank PLC or other return of capital (other than a redemption or purchase of shares of Barclays Bank PLC, or a reduction of share capital), a holder of Preference Shares will rank in the application of assets of Barclays Bank PLC available to shareholders: (1) junior to the holder of any shares of Barclays Bank PLC in issue ranking in priority to the Preference Shares; (2) equally in all respects with holders of other preference shares and any other shares of Barclays Bank PLC in issue ranking *pari passu* with the Preference Shares; and (3) in priority to the holders of ordinary shares and any other shares of Barclays Bank PLC in issue ranking junior to the Preference Shares.

The holders of the 6% Callable Perpetual Core Tier One Notes and the US\$681m 6.86% Callable Perpetual Core Tier One Notes of Barclays Bank PLC (together, the TONs) and the holders of the 5.3304% Step-up Callable Perpetual Reserve Capital Instruments, the US\$533m 5.926% Step-up Callable Perpetual Reserve Capital Instruments, the 6.3688% Step-up Callable Perpetual Reserve Capital Instruments, the US\$347m 7.434% Step-up Callable Perpetual Reserve Capital Instruments and the 14% Step-up Callable Perpetual Reserve Capital Instruments of Barclays Bank PLC (together, the RCIs) would, for the purposes only of calculating the amounts payable in respect of such securities on a winding-up of Barclays Bank PLC, subject to limited exceptions and to the extent that the TONs and the RCIs are then in issue, rank *pari passu* with the holders of the most senior class or classes of preference shares then in issue in the capital of Barclays Bank PLC. Accordingly, the holders of the preference shares would rank equally with the holders of such TONs and RCIs on such a winding-up of Barclays Bank PLC (unless one or more classes of shares of Barclays Bank PLC ranking in priority to the preference shares are in issue at the time of such winding-up, in which event the holders of such TONs and RCIs would rank equally with the holders of such shares and in priority to the holders of the preference shares).

Subject to such ranking, in such event, holders of the preference shares will be entitled to receive out of assets of Barclays Bank PLC available for distributions to shareholders, liquidating distributions in the amount of €10,000 per 4.875% Preference Share, €10,000 per 4.75% Preference Share, £10,000 per 6.0% Preference Share, US\$10,000 per 6.278% Preference Share, US\$25 per 6.625% Preference Share, US\$25 per 7.1% Preference Share, US\$25 per 7.75% Preference Share and US\$0.25 per 8.125% Preference Share, plus, in each case, an amount equal to the accrued dividend for the then current dividend period to the date of the commencement of the winding-up or other such return of capital. If a dividend is not paid in full on any preference shares on any dividend payment date, then a dividend restriction shall apply.

This dividend restriction will mean that neither Barclays Bank PLC nor Barclays PLC may (a) declare or pay a dividend (other than payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by Barclays Bank PLC to Barclays PLC or to a wholly owned subsidiary) on any of their respective ordinary shares, other preference shares or other share capital or (b) redeem, purchase, reduce or otherwise acquire any of their respective share capital, other than shares of Barclays Bank PLC held by Barclays PLC or a wholly owned subsidiary, until the earlier of: (1) the date on which Barclays Bank PLC next declares and pays in full a preference dividend; and (2) the date on or by which all the preference shares are redeemed in full or purchased by Barclays Bank PLC.

Holders of the preference shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC. Barclays Bank PLC is not permitted to create a class of shares ranking as regards participation in the profits or assets of Barclays Bank PLC in priority to the preference shares, save with the sanction of a special resolution of a separate general meeting of the holders of the preference shares (requiring a majority of not less than three-fourths of the holders of the preference shares voting at the separate general meeting) or with the consent in writing of the holders of three-fourths of the preference shares.

Except as described above, the holders of the preference shares have no right to participate in the surplus assets of Barclays Bank PLC.

Other shareholders' equity and other equity instruments

	The Group £m	The Bank £m
As at 1 January 2013	645	710
Tax Credits	-	-
Other Movements	(60)	(61)
Redemption	(100)	(100)
AT1 equity issuance	2,078	2,078
As at 31 December 2013	2,563	2,627
As at 1 January 2012	648	712
Tax Credits	-	-
Other Movements	(3)	(2)
Redemption	-	-
As at 31 December 2012	645	710

Included in other shareholders' equity are capital notes which bear interest at rates fixed periodically in advance, based on London interbank rates. These notes are repayable in each case, at the option of the Bank, in whole on any interest payment date. The Bank is not obliged to make a

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payment of interest on its capital notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC. During 2013 £100m of upper tier 2 capital notes were redeemed (2012: £nil).

Also included in other equity instruments are Additional Tier 1 (AT1) securities. During 2013, there were two separate issuances of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities, with principal amounts of \$2bn and €1bn. The AT1 securities are perpetual securities with no fixed maturity or redemption date and are structured to qualify as AT1 instruments under CRD IV.

32 Reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the retranslation of The Group's net investment in foreign operations, net of the effects of hedging.

As at 31 December 2013 there was a debit balance of £1,142m in the currency translation reserve (2012: £59m credit). The decrease of £1,201m (2012: £1,289m) principally reflected the depreciation of ZAR and USD against GBP. The currency translation reserves associated with non-controlling interests decreased by £566m (2012: £259m) due to the depreciation of ZAR against GBP.

The impact of the currency translation reserve recognised in the income statement during the year was a £5m net gain (2012: £24m).

Available for sale reserve

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.

As at 31 December 2013 there was a credit balance of £151m in the available for sale reserve (2012: £526m credit). The decrease of £375m (2012: £502m increase) principally reflected the £2.7bn losses from changes in fair value on Government Bonds offset by £2.4bn gains transferred to the income statement due to fair value hedging.

Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transactions affect profit or loss.

As at 31 December 2013 there was a credit balance of £273m (2012: £2,099m credit) in the cash flow hedging reserve. The decrease of £1,826m (2012: £657m increase) principally reflected £1,881m decreases in the fair value of interest rate swaps held for hedging purposes as interest rate forward curves increased and £509m gains transferred to net profit, partly offset by a deferred tax credit of £553m.

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33 Non-controlling interests

	Profit attributable to Non-Controlling interest		Equity attributable to Non-Controlling interest		Dividends paid to Non-Controlling interest	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Barclays Africa Group Limited ^a	343	304	2,204	2,737	342	229
Other non-controlling interests	2	35	7	119	-	-
Total	345	339	2,211	2,856	342	229

Barclays Bank PLC owns 62.3% (2012: 55.5%) of Barclays Africa Group Limited.

Changes in ownership interest

During the year, The Group disposed of its shares in Barclays Africa Limited^b, which at that time included Barclays interests in a number of African businesses and Absa Group Limited in exchange for an additional 6.7% of Barclays Africa Group Limited, increasing its ownership interests in that entity from 55.6% to 62.3%. Non-controlling interests hold 37.7% of the voting capital of Barclays Africa Group Limited, representing 37.7% of that company's equity on 31 December 2013. The minority shareholders in Absa Group Limited, were offered shares in Barclays Africa Group Limited in exchange for their shares. At 31 December 2012, non-controlling interests held 44.4% of the voting capital of Absa Group Limited, which was 44.4% of that company's equity.

Following this disposal, The Group retained control of both Barclays Africa Limited and Absa Group Limited, through its shareholding in Barclays Africa Group Limited and continues to consolidate these businesses. Accordingly, the transaction was recorded entirely in shareholders' equity.

The effects of the transaction on the equity attributable to shareholders of the parent was as follows:

	£m
Proceeds received - additional shares in Barclays Africa Group Limited at fair value	282
Share of net assets in Barclays Africa Limited transferred to non-controlling interests	(188)
Increase in equity attributable to the shareholders of the parent	94

Summarised financial information for Barclays Africa Group Limited (2012: Absa Group Limited)

Summarised financial information for Barclays Africa Group Limited, before intercompany eliminations, is set out below:

	Barclays Africa Group Limited 2013 £m	Absa Group Limited 2012 £m
Income statement information		
Total income net of insurance claims	3,356	3,560
Profit after tax	807	649
Total other comprehensive income for the year, after tax	(71)	56
Total comprehensive income for the year	736	705
Statement of Cashflows information		
Net cash inflows	109	120
Balance sheet information		
Total assets	55,616	59,297
Total liabilities	50,500	53,637
Shareholder equity	5,116	5,660

Note

a Barclays Africa Group Limited was created following restructuring of Barclays African entities. The 2012 comparatives are for Absa Group Limited only. Some other non-controlling interests in 2012 are now included into Barclays Africa Group Limited.

b Includes the Barclays Africa business in Botswana, Ghana, Mauritius, Seychelles, Tanzania, Uganda, Kenya, Zambia and the Barclays Africa regional office.

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Full financial statements for Barclays Africa Group Limited can be obtained at <http://barclaysafrica.com/barclaysafrica/investor-relations>.

Protective rights of non-controlling interests

Barclays Africa Group Limited

Barclays owns 62.3% of the share capital of Barclays Africa Group Limited. Certain resolutions of Barclays Africa require a 75% approval which restricts Barclays PLC's rights to access the assets of Barclays Africa and its group companies. 75% approval would be required to dispose of all or the greater part of the Barclays Africa Group Limited's assets or to complete the voluntary winding up of the entity.

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Employee benefits

34 Staff costs

Accounting for staff costs

The Group applies IAS 19 *Employee benefits* (Revised 2011) in its accounting for most of the components of staff costs.

Short-term employee benefits - salaries, and accrued performance costs, social security and the Bonus Payroll Tax are recognised over the period in which the employees provide the services to which the payments relate.

Performance costs - recognised to the extent that The Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the services.

Deferred cash bonus awards and deferred share bonus awards are made to employees to incentivise performance over the vesting period. To receive payment under an award, employees must provide service over the vesting period, typically three years from the grant date. The period over which the expense for deferred cash and share bonus awards is recognised is based upon the common understanding between the employee and The Group and the terms and conditions of the award. The Group considers that it is appropriate to recognise the awards over the period from the date of grant to the date that the awards vest as this is the period over which the employees understand that they must provide service in order to receive awards. The table on page 99 of the Barclays PLC Annual Report details the relevant award dates, payment dates and the period in which the income statement charge arises for bonuses. No expense has been recognised in 2013 for the deferred bonuses granted in March 2014, as they are dependent upon future performance rather than performance during 2013.

The accounting policies for share based payments and pensions and other post retirement benefits are under Note 35 and Note 36 respectively.

	2013 £m	2012 £m
Current year bonus accrual	957	867
Deferred bonus charge	1,147	1,223
Sales commissions, commitments and other incentives	450	335
Performance costs	2,554	2,425
Salaries	4,981	5,254
Social security costs	715	685
Post-retirement benefits	688	612
Allowances and trading incentives	211	247
Other compensation costs	467	536
Total compensation costs^a	9,616	9,759
Other resourcing costs		
Outsourcing	1,084	999
Redundancy and restructuring	687	68
Temporary staff costs	551	481
Other	217	160
Total other resourcing costs	2,539	1,708
Total staff costs	12,155	11,467

Total staff costs increased 6% to £12,155m, principally reflecting a £619m increase in redundancy and restructuring charges, a 5% increase in performance costs and a 9% increase in outsourcing. Redundancy and restructuring charges increased £619m to £687m, due to a number of Transform initiatives.

Performance costs increased 5% to £2,554m, reflecting a 10% increase to £957m in charges for current year cash and share bonuses and a 34% increase in commissions, commitments and other incentives to £450m. This was offset by a 6% decrease in the charge for deferred bonuses to £1,147m. The average total number of persons employed by The Group including both continuing and discontinued operations was 140,300 (2012: 143,700).

Note

a In addition, £346m of group compensation (2012: £44m) was capitalised as internally generated software.

Notes to the financial statements

Employee benefits

35 Share based payments

Accounting for share based payments

The Group applies IFRS 2 *Share Based Payments* in accounting for employee remuneration in the form of shares.

Employee incentives include awards in the form of shares and share options, as well as offering employees the opportunity to purchase shares on favourable terms. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions – such as continuing to make payments into a share based savings scheme.

The information in the note relates to The Group. The charge for the year arising from share based payment schemes was as follows:

	Charge for the year		
	2013	2012	2011
	£m	£m	£m
Share Value Plan	576	610	634
Executive Share Award Scheme	72	115	101
Others	54	58	137
Total equity settled	702	783	872
Cash settled	25	35	34
Total share based payments	727	818	906

The terms of the main current plans are as follows:

Share Value Plan (SVP)

The SVP was introduced in March 2010 and approved by shareholders (for Executive Director participation and use of new issue shares) at the AGM in April 2011. SVP awards are granted to participants in the form of a conditional right to receive Barclays PLC shares or provisional allocations of Barclays PLC shares which vest or are considered for release over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on release of a SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

Executive Share Award Scheme (ESAS)

ESAS awards were granted to participants in the form of a provisional allocation of Barclays PLC shares. The total value of the ESAS award made to the employee was dependent upon the business unit, Group and individual employee performance. The ESAS award must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and are considered for release upon achieving continued service for three and five years from the date of award. ESAS awards were also made to eligible employees for recruitment purposes under JSAP (Joiners Share Award Plan). All awards are subject to potential forfeiture if the individual resigns and commences work with a competitor business.

Other schemes

In addition to the above schemes, The Group operates a number of other schemes including schemes operated by and settled in the shares of subsidiary undertakings, none of which are individually or in aggregate material in relation to the charge for the year or the dilutive effect of outstanding share options. Included within other schemes are Sharesave (both UK and overseas), and the Barclays Long Term Incentive Plan; the latter was introduced and approved at the AGM in April 2011.

Notes to the financial statements

Employee benefits

Share option and award plans

The weighted average fair value per award granted and weighted average share price at the date of exercise/release of shares during the year was:

	Weighted average fair value per award granted in year		Weighted average share price at exercise/release during year	
	2013	2012	2013	2012
	£	£	£	£
SVP ^{a,b}	3.04	2.41	3.04	2.39
ESAS ^{a,c}	3.04	1.69	3.04	2.38
Others ^a	0.81 - 3.08	0.63 - 2.45	2.64 - 3.22	2.14 - 2.45

SVP and ESAS are nil cost awards and nil cost options respectively on which the performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards/options is based on the market value at that date.

Movements in options and awards

The movement in the number of options and awards for the major schemes and the weighted average exercise price of options was:

	SVP ^{a,b}		ESAS ^{a,c}		Others ^{a,d}		Weighted average ex. price (£)	
	Number (000s)		Number (000s)		Number (000s)		2013	
	2013	2012	2013	2012	2013	2012	2013	2012
Outstanding at beginning of year/acquisition date	540,872	392,638	77,867	252,028	200,976	214,363	1.70	1.93
Granted in the year	233,513	345,165	5,051	3,571	37,128	114,305	2.28	1.44
Rights issue adjustments	40,684	-	1,622	-	18,008	-	1.58	-
Exercised/released in the year	(265,082)	(170,672)	(60,385)	(153,425)	(17,367)	(60,150)	2.19	1.47
Less: forfeited in the year	(25,727)	(26,259)	(7,352)	(24,307)	(15,031)	(48,970)	1.61	1.76
Less: expired in the year	-	-	-	-	(8,528)	(18,572)	3.03	2.79
Outstanding at end of year	524,260	540,872	16,803	77,867	215,186	200,976	1.55	1.70
Of which exercisable:	60	29	4,764	20,178	16,213	20,302	2.52	3.21

Certain of The Group's share option plans enable certain directors and employees to subscribe for new ordinary shares of Barclays PLC.

The weighted average contractual remaining life and number of options and awards outstanding (including those exercisable) at the balance sheet date are as follows:

	2013		2012	
	Weighted average contractual life in years	Number of options/ awards outstanding (000s)	Weighted average contractual life in years	Number of options/ awards outstanding (000s)
SVP ^{a,b}	1	524,260	1	540,872
ESAS ^{a,c}	-	16,803	-	77,867
Others ^a	0-3	215,186	0-4	200,976

There were no significant modifications to the share based payments arrangements in the years 2013, 2012 and 2011. As at 31 December 2013, the total liability arising from cash-settled share based payments transactions was £26m (2012: £47m).

Holdings of Barclays PLC Shares

Various employee benefit trusts established by The Group, hold shares in Barclays PLC to meet obligations under the Barclays share based payment schemes. The total number of Barclays shares held in these employee benefit trusts at 31 December 2013 was 3.2 million (2012: 6.8 million). Dividend rights have been waived on all of these shares. The total market value of the shares held in trust based on the year end share price of £2.72 (2012: £2.62) was £8.7m (2012: £17.8m).

Notes

a Options/award granted over Barclays PLC shares.

b Nil cost award and therefore the weighted average exercise price was nil.

c Nil cost options and therefore there was no weighted average exercise price.

d The number of awards within others at the end of the year principally relates to Sharesave (number of awards exercisable at end of year was 2,789,460). The weighted average exercise price relates to Sharesave.

Notes to the financial statements

Employee benefits

36 Pensions and post retirement benefits

Accounting for pensions and post retirement benefits

The Group operates a number of pension schemes including defined contribution, defined benefit and post-employment benefit schemes.

Defined contribution schemes - The Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

Defined benefit schemes - The Group recognises its obligation to members of the scheme at the period end, less the fair value of the scheme assets after applying the asset ceiling test. Actuarial gains and losses are recognised in other comprehensive income in the reporting period in which they occur. Each scheme's obligations are calculated using the projected unit credit method on the assumptions set out in the note below. Scheme assets are stated at fair value as at the period end.

IAS 19 (revised) has been adopted by The Group from the mandatory effective date of 1 January 2013 and application is retrospective. The main change is that The Group recognises the liabilities (or assets) arising from its defined benefit pension schemes in full. The deferral of actuarial gains and losses, which was an option applied by Barclays under the previous standard, is no longer permitted. The expected return on assets assumption has also been replaced by an assumed return on assets in line with the discount rate.

Changes in pension scheme liabilities or assets ('remeasurements') that do not arise from regular pension cost, interest on net defined benefit liabilities or assets, past service costs, settlements or contributions to the plan, are recognised in other comprehensive income. For further details on the impacts of IAS 19 (Revised) restatements please refer to note 44.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Post-employment benefits - the cost of providing health care benefits to retired employees is accrued as a liability in the financial statements over the period that the employees provide services to The Group, using a methodology similar to that for defined benefit pension schemes.

Pension schemes

UK Retirement Fund (UKRF)

The UK Retirement Fund (UKRF) is The Group's main scheme, representing 91% of The Group's total retirement benefit obligations. The UKRF was closed to new entrants on 1 October 2012, and comprises ten sections, the most significant of which are:

- Afterwork, which comprises a contributory cash balance defined benefit element, and a voluntary defined contribution element. The cash balance element is accrued each year and revalued until Normal Retirement Age in line with the increase in Retail Price Index (RPI) (up to a maximum of 5% pa). An investment related increase of up to 2% a year may also be added at Barclays discretion. Between 1 October 2003 and 1 October 2012 the majority of new employees outside of Investment Bank were eligible to join this section. The costs of ill-health retirements and death in service benefits for Afterwork members are borne by the UKRF. The main risks that Barclays runs in relation to Afterwork are more limited than in traditional final salary pension plans, being the risk of needing to make additional contributions if pre-retirement investment returns are not sufficient to provide for the benefits. The discretionary element of the benefit provides a partial buffer against this risk.
- The Pension Investment Plan (PIP): a defined contribution section providing benefits for Investment Bank employees from 1 July 2001 to 1 October 2012.
- The 1964 Pension Scheme: most employees recruited before July 1997 built up benefits in this non-contributory defined benefit scheme in respect of service up to 31 March 2010. Pensions were calculated by reference to service and pensionable salary. From 1 April 2010 members became eligible to accrue future service benefits in either Afterwork or PIP. The risks that Barclays runs in relation to the 1964 pension section are typical of final salary pension plans. Principally that investment returns fall short of expectations, that inflation exceeds expectations, and that retirees live longer than expected.

Barclays Pension Savings Plan (BPSP)

- From 1 October 2012 a new UK pension scheme, the Barclays Pension Savings Plan ("BPSP") was established to satisfy Auto Enrolment legislation. The BPSP is a defined contribution scheme (Group Personal Pension) providing benefits for all new Barclays UK hires from 1 October 2012, Investment Bank UK employees who were in PIP as at 1 October 2012, and also all UK employees who were not members of a pension scheme as at that date. As a defined contribution plan, BPSP is not subject to the same investment return, inflation or longevity risks that defined benefit plans face. Members' benefits reflect contributions paid and the level of investment returns achieved.

Notes to the financial statements

Employee benefits

Apart from the UKRF and the BPSP, Barclays operates a number of smaller pension and long-term employee benefits and post-retirement healthcare plans globally, the largest of which are the US and South African defined benefit schemes. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts. Others are operated on an unfunded basis. The benefits provided the approach to funding and the legal basis of the plans reflect their local environments.

Governance

The UKRF operates under trust law and is managed and administered on behalf of the members in accordance with the terms of the Trust Deed and Rules and all relevant legislation. The Corporate Trustee is Barclays Pension Funds Trustees Limited, a private limited company and a wholly owned subsidiary of Barclays Bank PLC. The Trustee is the legal owner of the assets of the UKRF which are held separately from the assets of The Group.

The Trustee Board comprises six Management Directors selected by Barclays, of whom three are independent Directors with no relationship with Barclays or the UKRF, plus three Member Nominated Directors selected from eligible active staff and pensioner members who apply for the role.

The BPSP is a Group Personal Pension arrangement which operates as a collection of personal pension plans. Each personal pension plan is a direct contract between the employee and the BPSP provider (Legal & General Assurance Society Limited), and is regulated by the FCA.

Similar principles of pension governance apply to The Group's other pension schemes, although different legislation covers overseas schemes where, in most cases, The Group has the power to determine the funding rate.

Amounts recognised

The following tables include: amounts recognised in the income statement and an analysis of benefit obligations and scheme assets for all Group schemes. The net position is reconciled to the assets and liabilities recognised on the balance sheet. The tables include funded and unfunded post-retirement benefits.

Income statement charge	2013	2012	2011
	£m	£m	£m
Current service cost ^a	371	410	414
Net finance cost/(income)	55	(10)	143
Past service cost ^b	4	(33)	23
Settlements	(3)	(12)	-
Total	427	355	580

Notes

- a Current service cost for the year ended 31 December 2012 and 31 December 2011 has been restated to bring the DC costs for active members of the South Africa pension plan within defined benefit accounting.
- b The past service cost relates to additional benefits provided in Spain during restructuring, offset by savings from restructuring programs in France and Portugal and scheme closure in Ireland.

Notes to the financial statements

Employee benefits

Balance sheet reconciliation	2013			2012		
	Total £m	The Bank Total	Of which relates to UKRF £m	Total £m	The Bank Total	Of which relates to UKRF £m
Benefit obligation at beginning of the year	(26,304)	(24,091)	(23,643)	(23,901)	(21,673)	(21,263)
Current service cost	(371)	(284)	(280)	(410)	(296)	(309)
Interest costs on scheme liabilities	(1,145)	(1,015)	(1,003)	(1,164)	(1,013)	(991)
Past service cost	(4)	-	-	33	12	-
Settlements	44	19	-	53	-	-
Remeasurement loss - financial	(989)	(985)	(997)	(1,946)	(1,846)	(1,797)
Remeasurement loss - demographic	4	-	-	5	-	-
Remeasurement loss - experience	(39)	36	31	22	31	29
Employee contributions	(39)	(2)	(1)	(44)	(5)	-
Benefits paid	905	811	799	865	702	690
Exchange and other movements	370	17	1	183	(3)	(2)
Benefit obligation at end of the year	(27,568)	(25,494)	(25,093)	(26,304)	(24,091)	(23,643)
Fair value of scheme assets at beginning of the year	25,075	23,080	22,845	23,701	21,747	21,541
Interest income on scheme assets	1,090	984	974	1,174	1,038	1,027
Employer contribution	364	256	238	898	766	742
Settlements	(41)	-	-	(41)	(3)	-
Remeasurement - return on plan assets greater than discount rate	575	419	400	304	240	221
Employee contributions	39	2	1	44	5	-
Benefits paid	(905)	(811)	(799)	(865)	(702)	(690)
Exchange and other movements	(454)	(24)	2	(140)	(11)	4
Fair value of scheme assets at the end of the year	25,743	23,906	23,661	25,075	23,080	22,845
Net deficit	(1,825)	(1,588)	(1,432)	(1,229)	(1,011)	(798)
Retirement Benefit Assets	133	-	-	53	-	-
Retirement Benefit Liabilities	(1,958)	(1,588)	(1,432)	(1,282)	(1,011)	(798)
Net retirement benefit liabilities	(1,825)	(1,588)	(1,432)	(1,229)	(1,011)	(798)

Included within the benefit obligation was £2,314m (2012: £1,585m) relating to overseas pensions and £161m (2012:£164m) relating to other post-retirement benefits. Of the total benefit obligation of £27,568m (2012: £25,391m), £298m (2012: £326m) was wholly unfunded. Included within the Bank's benefit obligation was £317m (2012: £372m) relating to overseas pensions and £84m (2012: £76m) relating to other post retirement benefits. Out of the Bank's benefit obligations of £25,494m (2012: £24,091m), £21m was wholly unfunded.

As at 31 December 2013, the UKRF's IAS 19R scheme assets were in deficit versus obligations by £1,432m (2012: deficit of £798m). The most significant driver for this change was an increase in long term RPI inflation which was partially offset by higher corporate bond yields.

Critical accounting estimates and judgements

Actuarial valuation of the schemes' obligation is dependent upon a series of assumptions, below is a summary of the main financial and demographic assumptions adopted for UKRF.

UKRF financial assumptions	2013 % p.a.	2012 % p.a.
Discount rate	4.46	4.31
Inflation rate	3.42	2.93
Rate of increase in salaries	2.92	3.43
Rate of increase for pensions in payment	3.32	2.88
Rate of increase for pensions in deferment	3.32	2.88
Afterwork revaluation rate	3.70	3.40

Notes to the financial statements

Employee benefits

The UKRF discount rate assumption for 2013 is taken based on the single equivalent discount rate implied by the Towers Watson RATE Link model. In 2012, an average rate derived from a Barclays AA corporate bond yield curve and the Towers Watson RATE link model was used. The impact of this change on the UKRF Defined Benefit Obligation was a £0.4bn decrease with no impact on current year profit. The change will affect future years' profits and on an IAS 19 Revised basis will result in a £19m reduced charge to the 2014 income statement. It is not possible to estimate the effects on profits after 2014.

The UKRF's post-retirement mortality assumptions are based on a best estimate assumption derived from an analysis in 2011 of Barclays own post-retirement mortality experience which was carried out at the time of the latest completed triennial funding valuation, and taking account of the recent evidence from published mortality surveys. An allowance has been made for future mortality improvements based on the 2010 core projection model published by the Continuous Mortality Investigation Bureau subject to a long term trend of 1% pa on future improvements. The table below shows how the assumed life expectancy at 60, for members of the UKRF, has varied over the last three years:

Assumed life expectancy	2013	2012	2011
Life expectancy at 60 for current pensioners (years)			
- Males	27.9	27.8	27.7
- Females	29.0	28.9	28.8
Life expectancy at 60 for future pensioners currently aged 40 (years)			
- Males	29.3	29.2	29.1
- Females	30.6	30.5	30.4

Sensitivity analysis on actuarial assumptions

The sensitivity analysis has been calculated by valuing the UKRF liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the UKRF assumptions table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The difference between the recalculated liability figure and that stated in the balance sheet reconciliation table above is the figure shown.

Change in key assumptions	Impact on UKRF defined benefit obligation	
	(Decrease)/ Increase %	(Decrease)/ Increase £bn
0.5% increase in discount rate	(9.2)	(2.3)
0.5% increase in assumed price inflation	7.8	2.0
1 year increase to life expectancy at 60	3.0	0.8

The weighted average duration of the benefit payments reflected in the defined benefit obligation for the UKRF is 20 years.

Assets

A long term investment strategy has been set for the UKRF, with its asset allocation comprising a mixture of equities, bonds, property and other appropriate assets. This recognises that different asset classes are likely to produce different long term returns and some asset classes may be more volatile than others. The long term investment strategy ensures, amongst other aims, that investments are adequately diversified. Asset managers are permitted some flexibility to vary the asset allocation from the long term investment strategy within control ranges agreed with the Trustee from time to time.

The UKRF also employs derivative instruments, where appropriate, to achieve a desired exposure or return, or to match assets more closely to liabilities. The value of assets shown reflects the actual physical assets held by the scheme, with any derivative holdings reflected on a mark to market basis.

Notes to the financial statements

Employee benefits

The value of the assets of the schemes and their percentage in relation to total scheme assets were as follows:

Analysis of scheme assets	Total		The Bank Total		Of which relates to UKRF	
	Value £m	% of total fair value of scheme assets %	Value £m	% of total fair value of scheme assets %	Value £m	% of total fair value of scheme assets %
As at 31 December 2013						
Equities - Quoted	3,420	13.3	2,465	10.3	2,355	10.0
Equities - Non Quoted	1,299	5.0	1,278	5.3	1,270	5.4
Bonds - Fixed Government ^a	1,342	5.2	949	4.0	888	3.8
Bonds - Index-Linked Government ^a	6,365	24.7	6,365	26.5	6,365	26.8
Bonds - Corporate and other ^a	3,715	14.4	3,603	15.1	3,533	14.9
Property - Commercial ^b	1,376	5.3	1,321	5.5	1,320	5.6
Derivatives ^b	1,425	5.5	1,425	6.0	1,425	6.0
Cash ^b	4,202	16.3	3,909	16.4	3,903	16.5
Investment funds ^c	2,342	9.1	2,342	9.8	2,342	9.9
Other ^b	257	1.0	249	1.0	260	1.1
Fair value of scheme assets	25,743	99.8	23,906	100.0	23,661	100.0
As at 31 December 2012						
Equities - Quoted	2,999	12.0	2,001	8.7	1,917	8.4
Equities - Non Quoted	1,226	4.9	1,208	5.2	1,204	5.3
Bonds - Fixed Government ^a	1,266	5.0	815	3.5	815	3.6
Bonds - Index-Linked Government ^a	6,405	25.6	6,443	27.8	6,405	28.0
Bonds - Corporate and other ^a	3,452	13.8	3,351	14.5	3,280	14.4
Property - Commercial ^b	1,289	5.1	1,230	5.3	1,228	5.4
Derivatives ^b	1,637	6.5	1,637	7.1	1,637	7.2
Cash ^b	4,196	16.7	3,872	16.7	3,843	16.8
Investment funds ^c	2,288	9.1	2,281	9.9	2,281	10.0
Other ^b	317	1.3	290	1.3	235	1.0
Fair value of scheme assets	25,075	100.0	23,128	100.0	22,845	100.0

Funding

The triennial funding valuation of the UKRF is currently underway with an effective date of 30 September 2013. Contribution requirements, including any deficit recovery plans, will be agreed between the Bank and Trustee by the end of 2014. The previous triennial funding valuation at 30 September 2010 showed a deficit of £5.0bn. Under the agreed recovery plan, deficit contributions of £1.8bn were paid to the fund in December 2011 and a further £0.5bn paid in April 2012. Further deficit contributions are payable from 2017 to 2021 starting at £0.7bn in 2017 and increasing by approximately 3.5% per annum until 2021. These deficit contributions are in addition to the regular contributions to meet The Group's share of the cost of benefits accruing over each year.

In non-valuation years the Scheme Actuary prepares an annual update of the funding position. The latest annual update was carried out as at 30 September 2012 and showed a deficit of £3.6bn. The contributions paid to the UKRF are agreed between Barclays and the Trustee every three years.

Contributions paid with respect to the UKRF were as follows:

Contributions paid	£m
2013	238
2012	742
2011	2,128

The Group's expected contribution to UKRF defined benefits in 2014 is £218m. In addition the expected contributions to UK defined contribution schemes is £46m to the UKRF and £103m to the BPSP. For non-UK schemes the expected contributions in 2014 are £107m.

Notes

a Assets held are predominately quoted.

b Assets held are predominantly non quoted.

c Pooled funds relate to a variety of investments which are predominantly non-quoted.

Notes to the financial statements

Scope of consolidation

Scope of consolidation

This section presents information on The Group's investments in subsidiaries, joint ventures and associates and its interests in structured entities. Detail is also given on securitisation transactions The Group has entered into and arrangements that are held off-balance sheet.

37 Principal Subsidiaries

Barclays applies IFRS 10 *Consolidated Financial Statements*. The consolidated financial statements combine the financial statements of Barclays PLC and all of its subsidiaries. Subsidiaries are entities over which The Group has control. Under IFRS 10, this is when The Group is exposed or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there have been changes to its power, its rights to variable returns or its ability to use its power to affect the amount of its returns.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout The Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has been obtained and they do not result in loss of control.

Barclays adopted IFRS 10 from 1 January 2013. The financial effects of the adoption are set out in Note 44 to these financial statements.

The significant judgements used in applying this policy are set out below.

Accounting for investment in subsidiaries

In the individual financial statements of Barclays PLC, investments in subsidiaries are stated at cost less impairment. Cost includes any directly attributable costs of the investment.

Investments in subsidiaries, the principal of which are engaged in banking related activities, are recorded on the balance sheet at historical cost less any impairment. At 31 December 2013 the historical cost of investments in subsidiaries was £19,214m (2012: £19,370m), and allowances recognised against these investments was £4,840m (2012: £4,652m) of impairment.

Principal subsidiaries for The Group are set out below. This includes those subsidiaries that are most significant in the context of The Group's business, results or financial position.

Company Name	Principal place of business or incorporation	Nature of business	Percentage of Voting rights held %	Non-controlling interests - proportion of ownership interests %	Non-controlling interests - proportion of voting interests %
Barclays Capital Securities Limited	England	Securities dealing	100	-	-
Barclays Private Clients International Limited	Isle of Man	Banking	100*	-	-
Barclays Securities Japan Limited	Japan	Securities dealing	100	-	-
Absa Bank Limited	South Africa	Banking	62	38	38
Barclays Bank of Kenya Limited	Kenya	Banking	43	57	57
Barclays Bank S.A.U.	Spain	Banking	100*	-	-
Barclays Capital Inc.	United States	Securities dealing	100	-	-
Barclays Bank Delaware	United States	Credit card issuer	100	-	-

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in subsidiaries held directly by Barclays Bank PLC are marked *. Information on The Group's subsidiaries, as required by the Companies Act, will be included in the Annual Return to be filed at the UK Companies House.

Ownership interests are in some cases different to voting interests due to the existence of non-voting equity interests, such as preference shares. See Note 33, non-controlling interests for more information. The 43% effective voting interest in Barclays Bank of Kenya Limited is derived from The Group's 62% interest in Barclays Africa Group Limited which holds a 69% interest in Barclays Bank of Kenya Limited.

Significant judgements and assumptions used to determine the scope of the consolidation

Determining whether The Group has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances this determination will involve significant judgment, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgment may involve assessing the purpose and design of the

Notes to the financial statements

Scope of consolidation

entity. It will also often be necessary to consider whether The Group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgment involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, The Group may conclude that the managers of the structured entity are acting as its agent and therefore will consolidate the structured entity.

An interest in equity voting rights exceeding 50% would typically indicate that The Group has control of an entity. However certain entities are excluded from consolidation because The Group does not have exposure to their variable returns. These entities are managed by external counterparties and consequently are not controlled by The Group. Where appropriate, amounts of interests relating to these entities are included in Note 38, Structured Entities.

Country of registration or incorporation	Company Name	Percentage of voting rights held (%)	Equity shareholder's funds (£m)	Retained profit for the year (£m)
UK	Fitzroy Finance Limited	100	-	-
Cayman Islands	Palomino Limited	100	1	-

Significant restrictions

As is typical for a Group of its size and international scope, there are restrictions on the ability of Barclays PLC to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries and due to the protective rights of non-controlling interests. These are considered below.

Regulatory requirements

Subsidiary companies with assets and liabilities before intercompany eliminations of £451bn (2012: £449bn) and £435bn (2012: £432bn) respectively are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company, Barclays Bank PLC.

In order to meet capital requirements, subsidiaries may hold certain equity accounted and debt accounted issued financial instruments such as Tier 1 and Tier 2 capital instruments and other forms of subordinated liability. See the non-controlling interests Note 33 and the subordinated liabilities Note 30 for particulars of these instruments. These instruments may be subject to cancellation clauses or preference share restrictions that would limit the ability of the entity to repatriate the capital on a timely basis.

Liquidity requirements

Regulated subsidiaries of The Group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are Barclays Capital Inc. and Absa Bank Limited which must maintain daily compliance with the regulatory minimum.

Statutory requirements

The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally to maintain solvency. These requirements restrict the ability of subsidiaries to make remittances of dividends to Barclays Bank PLC, the ultimate parent, except in the event of a legal capital reduction or liquidation. In most cases the regulatory restrictions referred to above exceed the statutory restrictions.

Contractual requirements

Asset encumbrance

The Group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around The Group. The assets affected are typically impacted through the Asset Pledged process described in Note 41.

Assets held by consolidated structured entities

£690m of assets included in The Group's balance sheet relate to consolidated investment funds and are held to pay return and principal to the holders of units in the funds. The assets held in these funds cannot be transferred to other members of The Group.

Notes to the financial statements

Scope of consolidation

Other restrictions

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £4,722m as at 31 December 2013 (2012: £5,169m).

Barclays Africa Group Limited assets are subject to exchange control regulation determined by the South African Reserve Bank (SARB). Special dividends and loans in lieu of dividends cannot be transferred without SARB approval.

38 Structured Entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

Depending on The Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated Structured Entities

The Group has contractual arrangements which may require it to provide financial support to the following types of consolidated structured entities:

Securitisation vehicles

The Group uses securitisation as a source of financing and a means of risk transfer. Refer to Note 40 for further detail.

The Group provides liquidity facilities to entities and provides interest rate and foreign currency swaps to enable the entities to make certain payments when due. At 31 December 2013, there were outstanding loan commitments to these entities totalling £195m.

Commercial paper (CP) and medium term note conduits

The Group provided £8.1bn in undrawn contractual backstop liquidity facilities to its own sponsored CP conduits.

Fund management entities

Barclays has contractually guaranteed the performance of certain cash investments in a number of managed investment funds which have resulted in their consolidation. As at 31 December 2013, the notional value of the guarantee was £991m.

Covered bonds

During the reporting period, The Group provided non-contractual capital contributions totalling £1.3bn to Barclays Covered Bonds Limited Liability Partnership as a result of regulatory requirements to pre fund upcoming contractual covered bond redemptions. It will continue to provide such support in 2014.

Employee benefit trusts

The Group provides capital contributions to employee share trusts to enable them to meet their obligations to employees under share-based payment plans.

Unconsolidated Structured Entities in which The Group has an interest

The business activities within The Group where structured entities are used principally include multi-seller conduit programmes, asset securitisations, and asset management. The later sections provide quantitative information on The Group's involvements. For a description of these activities see the Glossary.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for The Group. Such interests include holdings of debt or equity securities, derivatives that transfer financial risks from the entity to The Group, lending, loan commitments, financial guarantees and investment management agreements.

Interest rate swaps, foreign exchange derivatives that are not complex and which expose The Group to insignificant credit risk by being senior in the payment waterfall of a securitisation and derivatives that are determined to introduce risk or variability to a structured entity are not considered to be an interest in an entity and have been excluded from the disclosures below.

Notes to the financial statements

Scope of consolidation

The nature and extent of The Group's interests in structured entities is summarised below:

Summary of interests in unconsolidated structured entities

Assets	Secured Financing £m	Short term traded interests £m	Traded Derivatives £m	Other interests £m	Total £m
Trading portfolio assets	-	11,272	-	5,111	16,383
Financial assets designated at fair value	-	-	-	1,035	1,035
Derivative financial instruments	-	-	3,758	1,464	5,222
Available for sale investments	-	-	-	2,073	2,073
Loans and advances to banks	-	-	-	4,143	4,143
Loans and advances to customers	-	-	-	24,971	24,971
Reverse repurchase agreements and other similar secured lending	51,112	-	-	-	51,112
Other assets	-	-	-	35	35
Total assets	51,112	11,272	3,758	38,832	104,974
Liabilities					
Derivative financial instruments	-	-	4,895	1,457	6,352

Secured financing arrangements, short term traded interests and traded derivatives are typically managed under market risk management described in page 94 which includes an indication on the change of risk measures compared to last year. For this reason, the total assets of these entities are not considered meaningful for the purposes of understanding the related risks and so have not been presented. Other interest materially includes a portfolio under exit quadrant which is being managed down and conduits and corporate lending where the interest is driven by normal customer demand.

Secured financing

The Group routinely enters into reverse repurchase contracts, stock borrowing and similar arrangements on normal commercial terms where the counterparty to the arrangement is a structured entity. Due to the nature of these arrangements, especially the transfer of collateral and on-going margining, The Group is minimally exposed to the performance of the structured entity counterparty. A description of these transactions is included in Note 22.

Short term traded interests

The Group buys and sells interests in structured entities as part of its trading activities, for example, retail mortgage backed securities, collateralised debt obligations and similar interests. Such interests are typically held individually or as part of a larger portfolio for no more than 90 days. In such cases, The Group typically has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Description of these transactions is included in Note 12.

As at 31 December 2013, the fair value of The Group's interests in structured entities in the trading portfolio, included in trading portfolio assets in The Group balance sheet, were as follows:

Type of security and nature of entity	Asset securitisations £m	Other £m	Total £m
Debt Securities	10,177	345	10,522
Equity Securities	5	87	92
Traded Loans	-	538	538
Other assets	-	120	120
Total	10,182	1,090	11,272

Traded Derivatives

The Group enters into a variety of derivative contracts with structured entities which reference market risk variables such as interest rates, foreign exchange rates and credit indices amongst other things. Description of the type of derivatives and the risk management practices are detailed in Note 14. The risk of loss may be mitigated through on-going margining requirements as well as a right to cash flows from entity which are senior in the payment waterfall. Such margining requirements are consistent with market practice for many derivative arrangements and in line with The Group's normal credit policies.

Notes to the financial statements

Scope of consolidation

The main derivative types which are considered interests in structured entities are as follows. Notional amounts of the derivative arrangements have been provided as a better indication of the risks associated with these instruments rather than the size of the structured entities to which The Group has exposure:

Fair value and notional amount												
Type of derivative and nature of entity	Asset management			Asset securitisations			Others			Total		
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Credit default swaps												
Index based	54,519	1,075	(1,353)	1,286	160	(328)	-	-	-	55,805	1,235	(1,681)
Entity specific	18,448	408	(203)	11	18	(28)	-	-	-	18,459	426	(231)
Total	72,967	1,483	(1,556)	1,297	178	(356)	-	-	-	74,264	1,661	(1,912)
Balance guaranteed swaps	-	-	-	38,349	231	(493)	-	-	-	38,349	231	(493)
Total return swaps	8,044	241	(470)	-	-	-	2	-	-	8,046	241	(470)
Commodity	10,341	518	(892)	-	-	-	3,698	47	(335)	14,039	565	(1,227)
Equity swaps	28,523	962	(792)	-	-	-	-	98	-	28,523	1,060	(792)
Other derivative products	-	-	-	606	-	(1)	-	-	-	606	-	(1)
Total	119,875	3,204	(3,710)	40,252	409	(850)	3,700	145	(335)	163,827	3,758	(4,895)

Derivative transactions require the counterparty to provide cash or other collateral under margining agreements to mitigate counterparty credit risk. Included above are, £752m derivative assets and £ (1,271m) derivative liability with a notional value of £41,716m which are 'cleared derivative' type arrangements. These are transactions where The Group enters into a contract with an exchange on behalf of a structured entity client and holds an opposite position with it. The Group is exposed to settlement risk only on these derivatives which is mitigated through daily margining.

Except for credit default swaps where the maximum exposure to loss is the swap notional amount, it is not possible to estimate the maximum exposure to loss in respect of derivative positions as the fair value of derivatives is subject to changes in market rates of interest, exchange rates and credit indices which by their nature are uncertain. In addition, The Group's losses would be subject to mitigating action under its traded market risk and credit risk policies that require the counterparty provide collateral in cash or other assets on a daily basis in most cases.

The contracts that most expose The Group to the risk of loss arising from the performance of the structured entity are as follows:

Credit default swaps – entity specific

In addition to index based credit default swaps, The Group provides tailored credit risk protection to structured entities where its loss exposure is based on the actual performance of the structured entity counterparty and the assets that it holds. The underlying for these exposures are mainly related to corporate and commercial loans, corporate bonds and retail mortgages.

Balance guaranteed swaps

These are single or cross-currency swaps where the notional amount of the arrangement is not defined at trade inception and instead tracks the balance of a reference pool of collateral or securities. The swap exchanges the cash flows of the referenced collateral into those of the issued debt securities which pay a different coupon and in a different currency. Swaps may be super-senior in the capital structure or pari-passu with the issued notes. The Group holds debt securities issued by the entities as a hedge against the credit risk of the balance guaranteed swaps. At 31 December 2013, £1,457m of such bonds were held within the trading portfolio asset.

Notes to the financial statements

Scope of consolidation

Other interests in unconsolidated structured entities

The Group's interests in structured entities not held for the purposes of short term trading activities are set out below, summarised by the purpose of the entities and limited to significant categories, based on maximum exposure to loss.

Nature of interest	Structured credit portfolio £m	Multi-seller conduit programmes £m	Lending £m	Mortgage backed securities £m	Investment funds and trusts £m	Others £m	Total £m
Trading portfolio assets							
-Debt securities	4,944	-	50	-	-	106	5,100
-Equity securities	-	-	-	-	-	11	11
Financial assets designated at fair value							
-Loans and advances to customers	-	-	935	-	-	34	969
-Debt securities	-	-	-	-	-	32	32
-Equity securities	-	-	-	-	-	34	34
Derivative financial instruments	-	-	7	-	-	1,457	1,464
Available for sale investments							
-Debt securities	1	564	2	1,476	-	30	2,073
Loans and advances to customers	3,115	7,927	13,183	-	-	746	24,971
Loans and advances to banks	-	-	4,066	-	-	77	4,143
Other assets	-	1	1	-	25	8	35
Total on balance sheet exposures	8,060	8,492	18,244	1,476	25	2,535	38,832
Total notional amounts of off balance sheet amounts	1,411	8,400	2,186	-	-	54	12,051
Maximum exposure to loss	9,471	16,892	20,430	1,476	25	2,589	50,883
Total assets of the entity	80,565	138,199	138,980	246,062	44,679	11,098	659,583

Maximum exposure to loss

Unless specified otherwise below, The Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments and financial guarantees. Exposure to loss is mitigated through collateral, financial guarantees the availability of netting and credit protection held.

Structured credit portfolio

The portfolio forms a subset of the exit quadrant disclosed on page 82 which are being managed down. It comprises interests in debt securities issued by securitisation vehicles, mainly Collateralised Loan Obligations (CLOs), Collateralised Debt Obligations (CDOs), Retail and Commercial Mortgage Backed Securitisation structures (RMBSs and CMBSs), and drawn and undrawn loan facilities to these entities. In some cases, the securities are 'wrapped' with credit protection from a monoline insurer, which transfers the credit risk to the monoline. The entities are wholly debt financed through the issuance of tranches of debt securities or through direct funding, such as the loan facilities provided by The Group. As the underlying assets of the entities amortise and pay down, the debt securities issued by the entities are repaid in order of seniority. Where the entities experience significant credit deterioration, debt securities may be written off or cancelled in reverse order of seniority.

The creditworthiness of The Group's funded exposures within structured credit portfolio is presented below along with The Group's unfunded commitments. Funded exposures are classified as either debt securities or loans and advances. Refer Note 22 for additional description of the loans and advances.

	Non-monoline CLOs £m	Monoline wrapped CLOs £m	RMBS £m	Monoline wrapped CDOs £m	CMBS £m	Non-monoline CDOs £m	Other £m	Total £m
Investment grade	3,175	2,947	137	16	38	122	141	6,576
Non investment grade	-	-	46	502	175	191	-	914
Non rated	353	123	17	-	24	47	6	570
Total on balance sheet	3,528	3,070	200	518	237	360	147	8,060
Undrawn liquidity commitments	117	2	1,074	-	174	-	44	1,411
Maximum exposure to loss	3,645	3,072	1,274	518	411	360	191	9,471
On balance sheet amounts								
Debt securities at fair value	740	3,070	21	518	237	360	-	4,946
Loans and advances	2,788	-	179	-	-	-	147	3,114
Total on balance sheet exposure	3,528	3,070	200	518	237	360	147	8,060

Notes to the financial statements

Scope of consolidation

The majority of these interests are held at fair value through profit or loss as part of the Trading Portfolio, however direct lending and certain CLO positions are held at amortised cost, as disclosed in the above table.

The Group's exposure to loss depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before The Group. This is summarised in the table below.

	Non-monoline CLOs £m	Monoline wrapped CLOs £m	RMBS £m	Monoline wrapped CDOs £m	CMBS £m	Non-monoline CDOs £m	Others £m	Total £m
Senior	3,520	3,072	1,092	518	367	322	191	9,082
Mezzanine	125	-	181	-	44	36	-	386
Subordinated	-	-	1	-	-	2	-	3
Total	3,645	3,072	1,274	518	411	360	191	9,471

Due to decreases in the fair value of the underlying collateral, the interests that are subordinate to The Group's certain senior and mezzanine interests may currently have minimal or no value.

The Group's income from these entities comprises trading income (largely gains and losses on changes in the fair value and interest earned on bonds) on items classified as held for trading and interest income on interests classified as loans and receivables.

During the period, The Group recorded an overall fair value gain of £639m on debt securities. Impairment losses recorded on loans and advances were immaterial during the period.

The fair value of The Group's interests in monoline wrapped CLOs and CDOs is influenced by the protection directly provided to the structured entities by monoline insurers in addition to the value of the collateral held by the entities. The protection provided to the entities by the monoline insurers is in the form of a CDS, however the ability of the monolines to make payments is uncertain, which is reflected in the valuation of The Group's interests in the monoline wrapped CLOs and CDOs.

Multi-seller conduit programmes

The conduits engage in providing financing to various clients and hold whole or partial interests in pools of receivables or similar obligations. These instruments are protected from loss through over-collateralization, seller guarantees, or other credit enhancements provided to the conduits. The Group's off-balance sheet exposure included in the table above represents liquidity facilities that are provided to the conduits for the benefit of the holders of the commercial paper issued by the conduits and will only be drawn where the conduits are unable to access the commercial paper market. If these facilities are drawn, The Group is protected from loss through over-collateralization, seller guarantees, or other credit enhancements provided to the conduits. The Group earns income from fees received on the liquidity facility and the letter of credit provided to the conduits. There were no impairment losses on this lending in the year.

Lending

The portfolio includes lending provided by The Group to unconsolidated structured entities in the normal course of its lending business to earn income in the form of interest and lending fees. All loans are subject to The Group's credit sanctioning process. Collateral arrangements are specific to the circumstances of each loan. During the period The Group incurred an impairment of £20m against such facilities. The main types of lending are as follows.

Property loans

The Group has provided £4bn of funding loans to bankruptcy remote structured entities to either invest or develop properties. The loans are typically secured against the properties. Depending upon the circumstances The Group may require the sponsors of the entities to provide additional funding which is subordinate to The Group's. Additional guarantees and collateral may be sought from the sponsor on a case-by-case basis.

Facilities to financial institutions

The Group has provided loans to structured entities owned by third party financial institutions to facilitate their funding requirements. There is credit mitigation in place which significantly reduces the credit exposure faced by The Group against these entities.

Structured lending to individuals

The Group has provided £2bn of loans to structured entities which have been created by an individual to hold one or more assets. The Group is the sole lender to these entities and has full recourse to the assets of the structured entity, and is usually further collateralised by guarantees from the sponsor or equity holders of the structured entity.

Notes to the financial statements

Scope of consolidation

Project finance transactions

The Group has provided £2bn to entities whose operations are limited to financing or funding the acquisition of specific assets such as schools, hospitals, roads and renewable energy projects under the Private Finance Initiative (PFI). Equity contributions are typically required from the sponsor or parent at inception of the arrangement which are required to absorb losses before The Group. The Group may also require the sponsor to provide liquid collateral where there is no recourse or reliance upon the parent or sponsor beyond its initial equity contribution. The Group typically obtains fixed and floating charges over assets, charges over shares in the structured entity, assignment rights over key contracts, step-in rights, and performance guarantees.

Capital equipment loans

The Group has provided £1bn of funding loans to bankruptcy remote structured entities to enable them to purchase capital equipment for parent companies and are supported by government export guarantees. The loans are also fully collateralised by the underlying assets and repayments of principal and interest are met through lease contracts with the operating company parent of the entity for its use of the purchased assets. Due to these guarantees and the availability of collateral, the loans are considered low risk. During the period, Barclays incurred no credit losses on such facilities.

Mortgage backed securities

This represents a portfolio of floating rate notes mainly mortgage backed security positions used as an economic hedge of interest rate risk under The Groups structural hedging programme. All notes are investment grade.

Investment funds and trusts

In the course of its fund management activities, The Group establishes pooled investment funds that comprise portfolio of investments of various kinds, tailored to meet certain investors' requirements. The Group's interest in funds is generally restricted to a fund management fee, the value of which is generally based on the performance of the fund.

The Group acts as trustee to a number of trusts established by or on behalf of its clients. The purpose of the trusts, which meet the definition of structured entities, is to hold assets on behalf of beneficiaries. The Group's interest in trusts is generally restricted to unpaid fees which, depending on the trust, may be fixed or based on the value of the trust assets. During the year ended 31 December 2013, fees earned were £206m and unpaid fees were £21m. Barclays has no other risk exposure to the trusts.

Other

This includes £1,457m of derivative transactions with structured entities where the market risk is materially hedged with corresponding derivative contracts.

Financial support provided or to be provided to unconsolidated structured entities

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to unconsolidated structured entities in the future.

Sponsored unconsolidated structured entities

In addition to the unconsolidated structured entities in which The Group has an interest, it also sponsors structured entities in which it has no interest. For the purposes of these disclosures, The Group sponsors an entity when:

- It is the majority user of the entity;
- Its name appears in the name of the entity or on the products issued by the entity;
- It provides implicit or explicit guarantees of the entity's performances; or
- It led the formation of the entity.

Income from sponsored unconsolidated structured entities comprised of a £4m interest earned from bonds recognised within trading income.

Assets transferred to unconsolidated sponsored structured entities

Assets transferred by all parties, not just those transferred by The Group, to sponsored entities during the period were as follows:

Nature of activities	2013 £m
Asset securitisations	1,515
Other	5
Total	1,520

Notes to the financial statements

Scope of consolidation

39 Investments in associates and joint ventures

Accounting for associates and joint ventures

Barclays applies IAS 28 *Investments in Associates* and IFRS 11 *Joint Arrangements*. Associates are entities in which The Group has significant influence, but not control, over the operating and financial policies. Generally The Group holds more than 20%, but less than 50%, of their voting shares. Joint ventures are joint arrangements which have joint control and have rights to the net assets of the entity.

The Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by The Group's share of the post acquisition profit (or loss). The Group ceases to recognise its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses. In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

There are no individually significant investments in joint ventures or associates held by Barclays. There are certain entities that are considered strategic to the banking operations of The Group supporting payment services.

	2013			2012		
	Associates	Joint ventures	Total	Associates	Joint ventures	Total
	£m	£m	£m	£m	£m	£m
Equity accounted	275	378	653	324	309	633
Held at fair value through profit or loss	610	400	1,010	634	315	949
Total	885	778	1,663	958	624	1,582

Summarised financial information for The Group's equity accounted associates and joint ventures is set out below. The amounts shown are the net income of the investees, not just The Group's share for the year ended 31 December 2013 with the exception of certain undertakings for which the amounts are based on accounts made up to dates not earlier than three months before the balance sheet date.

	Associates		Joint ventures	
	2013	2012	2013	2012
	£m	£m	£m	£m
Profit or loss from continuing operations	(51)	137	144	168
Other comprehensive income	3	14	(20)	(2)
Total comprehensive income	(48)	151	124	166

Unrecognised shares of the losses of individually immaterial associates and joint ventures were nil (2012: £6m).

The Group's associates and joint ventures are subject to statutory requirements such that they cannot make remittances of dividends or make loan repayments to Barclays PLC without agreement from the external parties.

The Group's share of commitments and contingencies of its associates and joint ventures comprised unutilised credit facilities provided to customers of £2,156m (2012: £2,711m). In addition, The Group has made commitments to finance or otherwise provide resources to its joint ventures and associates of £74m (2012: £87m).

Notes to the financial statements

Scope of consolidation

40 Securitisations

Accounting for securitisations

The Group uses securitisations as a source of finance and a means of risk transfer. Such transactions generally result in the transfer of contractual cash flows from portfolios of financial assets to holders of issued debt securities.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of The Group's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when The Group transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

In the course of its normal banking activities, The Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficial (where The Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in de-recognition of the assets in their entirety, partial de-recognition or no de-recognition of the assets subject to the transfer.

Full derecognition only occurs when The Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, The Group may retain an interest in it (continuing involvement) requiring The Group to repurchase it in certain circumstances for other than its fair value on that date.

A summary of the main transactions, the assets and liabilities and the financial risks arising from these transactions is set out below:

Transfers of financial assets that do not result in derecognition

Securitisations

The Group was party to securitisation transactions involving its residential mortgage loans, business loans and credit card balances. In addition, The Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions.

In these transactions, the assets, interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, which then issues interest bearing debt securities to third-party investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction. Partial continued recognition of the assets to the extent of The Group's continuing involvement in those assets can also occur or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer.

Notes to the financial statements

Scope of consolidation

The following table shows the carrying amount of securitised assets that have not resulted in full derecognition, together with the associated liabilities, for each category of asset on the balance sheet:

	2013		Liabilities		2012	
	Assets		Carrying	Fair Value	Assets	Liabilities
	Carrying amount	Fair Value	amount	Fair Value	Carrying amount	Carrying amount
	£m	£m	£m	£m	£m	£m
The Group						
Loans and advances to customers						
Residential mortgage loans	3,930	3,658	(3,545)	(3,335)	5,545	(5,066)
Credit card, unsecured lending and other retail lending	6,563	6,639	(5,017)	(5,038)	6,944	(5,519)
Corporate loans	331	285	(294)	(286)	944	(809)
Total	10,824	10,582	(8,856)	(8,659)	13,433	(11,394)
Assets designated at fair value through profit or loss						
Retained interest in residential mortgage loans	68	n/a	-	-	12	-
The Bank						
Loans and advances to customers						
Residential mortgage loans	2,364	2,272	(1,984)	(2,010)	3,503	(3,028)
Credit card, unsecured lending and other retail lending	10,198	10,308	(9,923)	(9,923)	5,866	(5,561)
Corporate loans	548	442	(487)	(443)	1,287	(1,109)
Total	13,110	13,022	(12,394)	(12,376)	10,656	(9,698)

Assets designated at fair value through profit or loss

Balances included within loans and advance to customers represent securitisations where substantially all the risks and rewards of the asset have been retained by The Group.

The relationship between the transferred assets and the associated liabilities is that holders of notes may only look to cash flows from the securitised assets for payments of principal and interest due to them under the terms of their notes, although the contractual terms of their notes may be different to the maturity and interest of the transferred assets.

Retained interests in residential mortgage loans are securities which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets. The carrying amount of the loans before transfer was £124m (2012: £16m). The retained interest is initially recorded as an allocation of the original carrying amount based on the relative fair values of the portion derecognised and the portion retained.

Continuing involvement in financial assets that have been derecognised

In some cases, The Group may have transferred a financial asset in its entirety but may have continuing involvement in it. This arises in asset securitisations where loans and asset backed securities were derecognised as a result of The Group's involvement with CLOs, CDOs, RMBS and CMBS. Continuing involvement largely arises from providing financing into these structures in the form of retained notes, which do not bear first losses.

Notes to the financial statements

Scope of consolidation

The table below shows the potential financial implications of such continuing involvement:

Type of transfer	Continuing involvement as at 31 December 2013			Gain/(loss) from continuing involvement	
	Carrying amount	Fair value	Maximum exposure to loss	For the year ended 31 December 2013	Cumulative to 31 December 2013
	£m	£m	£m	£m	£m
CLO and other assets	1,911	1,883	1,911	46	(712)
ABS CDO Super Senior	-	-	-	-	-
US sub-prime and Alt-A	398	377	398	3	(1,221)
Commercial mortgage backed securities	241	241	241	3	(33)
Total	2,550	2,501	2,550	52	(1,966)

Type of transfer	Continuing involvement as at 31 December 2012			Gain/(loss) from continuing involvement	
	Carrying amount	Fair value	Maximum exposure to loss	For the year ended 31 December 2012	Cumulative to 31 December 2012
	£m	£m	£m	£m	£m
CLO and other assets	2,546	2,495	2,556	126	(839)
ABS CDO Super Senior	922	922	922	209	(2,204)
US sub-prime and Alt-A	781	781	781	8	(1,336)
Commercial mortgage backed securities	239	239	239	1	(41)
Total	4,488	4,437	4,498	344	(4,420)

Assets which represent The Group's continuing involvement in derecognised assets are recorded in the following line items:

Type of transfer	Loans and advances	Trading portfolio assets	Derivatives	Available for sale investments	Total
	£m	£m	£m	£m	£m
As at 31.12.13					
CLO and other assets	1,130	778	2	1	1,911
US sub-prime and Alt-A	321	77	-	-	398
Commercial mortgage backed securities	-	241	-	-	241
Total	1,451	1,096	2	1	2,550
As at 31.12.12					
CLO and other assets	1,624	899	7	16	2,546
ABS CDO Super Senior	-	922	-	-	922
US sub-prime and Alt-A	703	78	-	-	781
Commercial mortgage backed securities	-	239	-	-	239
Total	2,327	2,138	7	16	4,488

Notes to the financial statements

Scope of consolidation

41 Assets Pledged

Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to derivatives. The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Trading portfolio assets	65,271	85,334	29,817	37,339
Loans and advances	62,607	72,918	58,177	51,986
Other	8,755	20,816	12,871	14,782
Assets Pledged	136,633	179,068	100,865	104,107

Barclays has an additional £11bn (2012: £15bn) of loans and advances within its asset backed funding programmes that can readily be used to raise additional secured funding and available to support future issuance.

Collateral held as security for assets

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, The Group is allowed to resell or re-pledge the collateral held. The fair value at the balance sheet date of collateral accepted and re-pledged to others was as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	£m	£m	£m	£m
Fair value of securities accepted as collateral	390,530	361,067	289,944	312,754
Of which fair value of securities re-pledged/transferred to others	321,115	309,466	241,418	265,553

The full disclosure as per IFRS7 has been included in collateral and other credit enhancements (page 63).

Notes to the financial statements

Other disclosure matters

Other disclosure matters

The notes included in this section focuses on related party transactions, and directors' remuneration. Related party transactions include any subsidiaries, associates, joint ventures, entities under common directorships and Key Management Personnel.

42 Related party transactions and Directors' remuneration

a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and The Group's pension schemes.

(i) The Group

Parent company

The parent company, which is also the ultimate parent company, is Barclays PLC, which holds 100% of the issued ordinary shares of Barclays Bank PLC.

Subsidiaries

Transactions between Barclays Bank PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in The Group financial statements. A list of The Group's principal subsidiaries is shown in Note 37.

Associates, joint ventures and other entities

The Group provides banking services to its associates, joint ventures, The Group pension funds (principally the UK Retirement Fund) and to entities under common directorships, providing loans, overdrafts, interest and non-interest bearing deposits and current accounts and other such banking services. Group companies also provide investment management and custodian services to The Group pension schemes. All of these transactions are conducted on the same terms as third-party transactions. Summarised financial information for The Group's associates and joint ventures is set out in Note 39.

Entities under common directorships

The Group enters into normal commercial relationships with entities for which members of The Group's Board also serve as Directors. The amounts included in The Group's financial statements relating to such entities that are not publicly listed are shown in the table opposite under Entities under common directorships.

Amounts included in The Group's financial statements, in aggregate, by category of related party entity are as follows:

	Parent £m	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds, unit trusts and investment funds £m
For the year ended and as at 31 December 2013					
Income	14	(10)	24	1	3
Impairment	-	(3)	(4)	-	-
Total Assets	451	116	1,521	33	5
Total Liabilities	773	278	185	73	207
For the year ended and as at 31 December 2012					
Income	(146)	(3)	38	1	20
Impairment	-	-	(5)	-	-
Total Assets	430	137	1,657	198	-
Total Liabilities	89	18	585	94	152

No guarantees, pledges or commitments have been given or received in respect of these transactions in 2013 or 2012. Derivatives transacted on behalf of the Pensions Funds Unit, Trusts and Investment Funds were £612.7m (2012: £661.1m).

Notes to the financial statements

Other disclosure matters

(ii) The Bank

Subsidiaries

Details of principal subsidiaries are shown in Note 37.

The Bank provides certain banking and financial services to subsidiaries as well as a number of normal current and interest bearing cash accounts to The Group pension funds (principally the UK Retirement Fund) in order to facilitate the day to day financial administration of the funds. The Bank also provides normal banking services for unit trusts and investment funds managed by Group companies. These transactions are conducted on similar terms to third-party transactions and are not individually material.

Group companies also provide investment management and custodian services.

In aggregate, amounts included in the accounts are as follows:

	Parent £m	Subsidiaries £m	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds, unit trusts and investment funds £m
For the year ended and as at 31 December 2013						
Total Assets	399	350,066	116	1,521	33	5
Total Liabilities	773	(280,281)	278	185	73	207
For the year ended and as at 31 December 2012						
Total Assets	406	338,459	137	1,657	198	-
Total Liabilities	89	282,823	18	585	94	152

It is the normal practice of the Bank to provide its subsidiaries with support and assistance by way of guarantees, indemnities, letters of comfort and commitments, as may be appropriate, with a view to enabling them to meet their obligations and to maintain their good standing, including commitment of capital and facilities. For dividends paid to Barclays PLC see Note 11.

Key Management Personnel

The Group's Key Management Personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank PLC (directly or indirectly) and comprise the Directors of Barclays Bank PLC and the Officers of The Group (listed on page 48), certain direct reports of The Group Chief Executive and the heads of major business units and divisions.

There were no material related party transactions with Entities under common directorship where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key management personnel (or any connected person) of Barclays.

The Group provides banking services to Directors and other Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding at 31 December were as follows:

	2013 £m	2012 £m
Loans Outstanding		
Loans outstanding at 1 January	6.2	6.3
Loans issued during the year	14.0	0.6
Loan repayments during the year	(6.7)	(0.7)
Loans outstanding at 31 December	13.5	6.2

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person) in 2013 or 2012. Fully collateralised open derivative positions relating to Directors or other Key Management Personnel amounted to £0.1m (2012: £nil).

Notes to the financial statements

Other disclosure matters

	2013	2012
	£m	£m
Deposits outstanding		
As at 1 January	37.4	39.1
Deposits received during the year	156.5	142.1
Deposits repaid during the year	(93.6)	(143.8)
As at 31 December	100.3	37.4

All loans to Directors and other Key Management Personnel (and persons connected to them) (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features; with the exception of £3,825 (2012: £4,080) provided on an interest free basis.

The loan of £3,825 (2012: £4,080) provided on an interest free basis was granted to a non-Director member of Barclays key management to purchase commuter rail tickets. The maximum loan outstanding during the year was £5,100 (2012: £4,896). Commuter rail ticket loans are provided to all Barclays staff members upon request on the same terms.

Total Commitments outstanding

Total Commitments outstanding refer to the total of any undrawn amounts on credit card and/or overdraft facilities provided to directors and key management personnel. Total Commitments outstanding were £2.8m (2012: £2.5m)

Remuneration of Directors and other Key management personnel

Total remuneration awarded to Directors and other Key Management Personnel below represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest remuneration decisions and is consistent with the approach adopted for disclosures set out on pages 89 to 125 of the Barclays PLC Annual Report. Costs recognised in the income statement reflect the accounting charge for the year included within operating expenses. The difference between the values awarded and the recognised income statement charge principally relates to the recognition of deferred costs for prior year awards. Figures are provided for the period that individuals met the definition of Directors and other Key Management Personnel.

Remuneration of Directors and other Key Management Personnel

	2013	2012
	£m	£m
Salaries and other short-term benefits	22.5	20.4
Pension costs	0.6	0.4
Other long-term benefits	11.5	17.9
Share-based payments	29.7	24.6
Employer social security charges on emoluments	6.5	8.0
Costs recognised for accounting purposes	70.8	71.3
Employer social security charges on emoluments	(6.5)	(8.0)
Share-based payment awards - difference between awards granted and costs recognised	(18.3)	(12.0)
Other long term benefits - difference between awards granted and costs recognised	(3.9)	(13.4)
Total remuneration awarded	42.1	37.9

Disclosure required by the Companies Act 2006

The following information regarding directors is presented in accordance with the Companies Act 2006:

Director's Remuneration	2013	2012
	£m	£m
Aggregate emoluments	5.3	5.5
Gains made on the exercise of share options	1.7	-
Amounts paid under long-term incentive schemes	0.7	2.8
	7.7	8.3

There were no pension contributions paid to defined contribution schemes on behalf of Directors. There were no notional pension contributions to defined contribution schemes (2012: £nil).

Notes to the financial statements

Other disclosure matters

As at 31 December 2013, there were no Directors accruing benefits under a defined benefit scheme (2012: £nil)

Of the figures in the table above, the amounts attributable to the highest paid Director are as follows:

	2013 £m	2012 £m
Aggregate emoluments	1.6	1.0
Amounts paid under long-term incentive schemes	-	2.8

There were no actual pension contributions paid to defined contribution schemes (2012: £nil). There were no notional pension contributions to defined contribution schemes in 2013 or 2012.

Advances and credit to Directors and guarantees on behalf of Directors

In accordance with Section 413 of the Companies Act 2006, the total amount of advances and credits made available in 2013 to persons who served as Directors during the year was £0.2m (2012:£0.3m). The total value of guarantees entered into on behalf of Directors during 2013 was £nil (2012:£nil).

42 Auditors' remuneration

Auditors' remuneration is included within consultancy, legal and professional fees in administration and general expenses and comprises:

	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
2013					
Audit of The Group's annual accounts	10	-	-	-	10
Other services:					
Fees payable for the Company's associates pursuant to legislation ^a	25	-	-	-	25
Other services supplied pursuant to such legislation ^b	-	3	-	-	3
Other services relating to taxation					
- compliance services	-	-	2	-	2
- advisory services ^c	-	-	-	-	-
Other	-	3	-	2	5
Total auditors' remuneration	35	6	2	2	45
2012					
Audit of The Group's annual accounts	10	-	-	-	10
Other services:					
Fees payable for the Company's associates pursuant to legislation ^a	25	-	-	-	25
Other services supplied pursuant to such legislation ^b	-	4	-	-	4
Other services relating to taxation					
- compliance services	-	-	2	-	2
- advisory services ^c	-	-	-	-	-
Other	-	2	-	1	3
Total auditors' remuneration	35	6	2	1	44

The figures shown in the above table relate to fees paid to PricewaterhouseCoopers LLP and its associates for continuing operations of business. Fees paid to other auditors not associated with PricewaterhouseCoopers LLP in respect of the audit of the Company's subsidiaries were £5m (2012: £7m).

Notes

- Comprises the fees for the statutory audit of the subsidiaries and associated pension schemes both inside and outside Great Britain and fees for the work performed by associates of PricewaterhouseCoopers LLP in respect of the consolidated financial statements of the Company. The fees relating to the audit of the associated pension schemes were £0.2m (2012: £0.2m).
- Comprises services in relation to statutory and regulatory filings. These include audit services for the review of the interim financial information under the Listing Rules of the UK listing authority.
- Includes consultation on tax matters, tax advice relating to transactions and other tax planning and advice.
- Comprises due diligence related to transactions and other work in connection with such transactions.

Notes to the financial statements

Other disclosure matters

43 Financial risks, liquidity and capital management

The disclosures required under IFRS relating to financial risks and capital resources have been included within the Risk management and governance section on pages 5 to 136.

This move has been to improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication. The relevant disclosures have been marked as audited and can be found as follows:

- credit risk, on pages 62 to 93;
- market risk, on pages 94 to 98;
- liquidity risk pages; and 104 to 124
- capital resources, on pages 99 to 103

44 Transition Notes

Changes in accounting policies, comparability and other adjustments

IAS 19 (revised) Employee Benefits

In June 2011, the IASB issued revisions to IAS 19 Employee Benefits (“IAS 19R” or “the revised standard”). During 2013, Barclays adopted IAS 19R retrospectively in accordance with the transitional provisions set out in the standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. IAS 19R eliminates the “corridor method”, under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The measurement of the defined benefit obligation takes into account risk sharing features, such as those within our Swiss pension plan. In addition, IAS 19R requires net interest expense / income to be calculated as the product of the net defined benefit liability / asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognizing an expected return on plan assets.

IFRS 10 Consolidation of Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidation of Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

The implementation of IFRS 10 resulted in The Group consolidating some entities that were previously not consolidated and deconsolidating some entities that were previously consolidated, principally impacting the consolidation of entities in the Investment Bank with credit market exposures. 142 entities were impacted by IFRS 10 and were largely within Investment Bank and Wealth divisions. 79 entities were consolidated while 63 entities were deconsolidated.

Notes to the financial statements

Other disclosure matters

Movement between the published and restated income statements for 31 December 2012

In the income statement for the year ending 2012, the adoption of the IAS 19 Revised and IFRS 10 standards resulted in net operating income increasing by £574m, operating expenses increasing by £23m, tax increasing by £134m and the profit before tax increasing by £551m.

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 Revised £m	Other a	Restated £m
Continuing operations					
Interest income	19,199	12	-		19,211
Interest expense	(7,564)	3	-		(7,561)
Net interest income	11,635	15	-		11,650
Fee and commission income	10,216	(3)	-		10,213
Fee and commission expense	(1,634)	(43)	-		(1,677)
Net fee and commission income	8,582	(46)	-		8,536
Net trading income	3,028	322	-		3,350
Net investment income	663	27	-		690
Net premiums from insurance contracts	896	-	-		896
Other income	335	-	-		335
Total income	25,139	318	-		25,457
Net claims and benefits incurred on insurance contracts	(600)	-	-		(600)
Total income net of insurance claims	24,539	318	-		24,857
Credit impairment charges and other provisions	(3,596)	256	-		(3,340)
Net operating income	20,943	574	-		21,517
Staff costs	(10,447)	(1)	(22)	(997)	(11,467)
Administration and general expenses	(6,983)	-	-	997	(5,986)
Depreciation of property, plant and equipment	(669)	-	-		(669)
Amortisation of intangible assets	(435)	-	-		(435)
Provision for PPI redress	(1,600)	-	-		(1,600)
Provision for interest rate hedging products redress	(850)	-	-		(850)
Operating expenses	(20,984)	(1)	(22)		(21,007)
Share of post-tax results of associates and joint ventures	110	-	-		110
Profit/(loss) on disposal of subsidiaries, associates and joint ventures	28	-	-		28
Gain on acquisitions	2	-	-		2
Profit before tax	99	573	(22)		650
Taxation	(483)	(134)	-		(617)
(Loss)/profit after tax	(384)	439	(22)		33
Equity holders of the Parent	(723)	439	(22)		(306)
Non-controlling interests	339	-	-		339
(Loss)/profit after tax	(384)	439	(22)		33

Impact of IAS 19 revised standard on the income statement for the year ending 31 December 2013

The impact of the IAS 19 revised standard is an increase in staff costs of £22m and a decrease in tax of £1m. The movement in the staff cost relates to the replacement of expected return on assets with net interest income/expense using the scheme discount rate resulting in a further expense of £113m. This is partially offset by amortisation of unrecognised losses £91m no longer being recognised due to the removal of the corridor approach, with all actuarial losses recognised immediately on the balance sheet.

Note

a The Group has also realigned outsourcing costs from administration and general expenses to staff costs in order to more appropriately reflect the nature and internal management of these costs. The net effect of these movements is to reduce administration and general expenses and increase staff costs by £997m.

Notes to the financial statements

Other disclosure matters

Movement between the published and restated statement of comprehensive income for 31 December 2012

In the statement of comprehensive income for the year ending 2012, the adoption of the IAS 19 Revised and IFRS 10 standards resulted in the other comprehensive loss increasing by £787m. A major part of the reduction of £1,235m can be attributed to the IAS 19 revised standard which impacted the retirement benefit remeasurements.

Consolidated statement of comprehensive income - movement between published and restated

For the year ended 31 December 2012	Published £m	IFRS 10	IAS 19 Revised £m	Restated £m
(Loss)/profit after tax	(384)	439	(22)	33
Other comprehensive income from continuing operations that may be recycled:				
Currency translation reserve				
- Currency translation differences	(1,578)	30	-	(1,548)
- Tax	-	-	-	-
Available for sale reserve				
- Net gains/(losses) from changes in fair value	1,237	-	-	1,237
- Net gains transferred to net profit on disposal	(549)	-	-	(549)
- Net losses transferred to net profit due to impairment	40	-	-	40
- Net (gains)/losses transferred from Net profit due to fair value hedging	474	-	-	474
- Changes in insurance liabilities	(150)	-	-	(150)
- Tax	(352)	-	-	(352)
Cash flow hedging reserve				
- Net gains from changes in fair value	1,499	-	-	1,499
- Net gains transferred to net profit	(695)	-	-	(695)
- Tax	(142)	-	-	(142)
Other	95	1	-	96
Total comprehensive (loss)/income that may be recycled to profit or loss	(121)	31	-	(90)
Other comprehensive (loss)/income not recycled to profit or loss:				
Retirement benefit remeasurements	-	-	(1,553)	(1,553)
Deferred tax	-	-	318	318
Other comprehensive (loss)/income for the period	(121)	31	(1,235)	(1,325)
Total comprehensive income for the year	(505)	470	(1,257)	(1,292)
Attributable to:				
Equity holders of the Parent	(635)	470	(1,257)	(1,422)
Non-controlling interests	130	-	-	130
	(505)	470	(1,257)	(1,292)

Impact of IAS 19 revised standard on the statement of comprehensive income for 31 December 2013

The adoption of the IAS 19 Revised standard resulted in the other comprehensive loss increasing by £3,846m. This movement is attributable to the actuarial losses on scheme assets and liabilities no longer being deferred.

Movement between the published 31 December 2011 and restated 1 January 2012 numbers on the balance sheet

The opening balance sheet as of 1 January 2012 and the comparative figures have been presented as if IAS 19R and IFRS 10 had always been applied. The effect of adoption on prior periods is shown in the table below. The adoption of IAS 19R and IFRS 10 has resulted in total assets decreasing by £1,877m, total liabilities increasing by £305m and total equity decreasing by £2,182m as at 1 January 2012.

The movement on the retirement benefit assets principally relate to recognised losses whilst the movement on the retirement benefit liabilities relates to netting adjustments made to reclassify balances between assets and liabilities where the overall scheme is in a net deficit position. Movements on the assets, liabilities and equities balances are shown in the table below:

Notes to the financial statements

Other disclosure matters

Balance sheet - movement between published and restated - The Group

	31 December 2011 as published £m	IFRS 10 £m	IAS 19 Revised £m	1 January 2012 restated £m
Assets				
Cash and balances at central banks	106,894	96	-	106,990
Items in the course of collection from other banks	1,812	-	-	1,812
Trading portfolio assets	152,183	1,325	-	153,508
Financial assets designated at fair value	36,949	818	-	37,767
Derivative financial instruments	538,964	13	-	538,977
Available for sale investments	69,023	4	-	69,027
Loans and advances to banks	46,792	(24)	-	46,768
Loans and advances to customers	431,934	(2,375)	-	429,559
Reverse repurchase agreements and other similar secured lending	153,665	(635)	-	153,030
Prepayments, accrued income and other assets	4,560	2	-	4,562
Investments in associates and joint ventures	427	60	-	487
Property, plant and equipment	7,166	-	-	7,166
Goodwill and intangible assets	7,846	-	-	7,846
Current tax assets	374	-	-	374
Deferred tax assets	3,010	283	318	3,611
Retirement benefit assets	1,803	-	(1,762)	41
Total assets	1,563,402	(433)	(1,444)	1,561,525
Liabilities				
Deposits from banks	91,116	7	-	91,123
Items in the course of collection due to other banks	969	-	-	969
Customer accounts	366,045	(505)	-	365,540
Repurchase agreements and other similar secured borrowing	207,292	-	-	207,292
Trading portfolio liabilities	45,887	-	-	45,887
Financial liabilities designated at fair value	87,997	456	-	88,453
Derivative financial instruments	527,798	339	-	528,137
Debt securities in issue	129,736	(58)	-	129,678
Subordinated liabilities	24,870	-	-	24,870
Accruals, deferred income and other liabilities	12,580	274	-	12,854
Provisions	1,529	-	-	1,529
Current tax liabilities	1,397	(1)	(129)	1,267
Deferred tax liabilities	695	-	-	695
Retirement benefit liabilities	321	-	(78)	243
Total liabilities	1,498,232	512	(207)	1,498,537
Total equity				
Shareholders' equity excluding non-controlling interests	62,078	(945)	(1,237)	59,896
Non-controlling interests	3,092	-	-	3,092
Total equity	65,170	(945)	(1,237)	62,988
Total liabilities and equity	1,563,402	(433)	(1,444)	1,561,525

Impact of IAS 19 revised standard on the balance sheet as at 31 December 2013

The adoption of the IAS 19 Revised standard resulted in a change from a defined benefit asset of £2,066m to a defined benefit liability of £1,780m. This movement is due to actuarial losses of £3,846m being recognised on the balance sheet.

Movement between the published and restated balance sheet as at 31 December 2011

The opening balance sheet as of 1 January 2012 and the comparative figures have been presented as if IAS 19R and IFRS 10 had always been applied. The effect of adoption on prior periods is shown in the table below. The adoption of IAS 19R and IFRS 10 has resulted in total assets decreasing by £1,251m, total liabilities decreasing by £109m and total equity decreasing by £1,142m as at 1 January 2012.

The movement on the retirement benefit assets principally relate to recognised losses whilst the movement on the retirement benefit liabilities relates to netting adjustments made to reclassify balances between assets and liabilities where the overall scheme is in a net deficit position. Movements on the assets, liabilities and equities balances are shown in the table below:

Notes to the financial statements

Other disclosure matters

Balance sheet - movement between published and restated - The Bank

	31 December 2011 as published £m	IFRS 10 £m	IAS 19 Revised £m	1 January 2012 restated £m
Assets				
Cash and balances at central banks	103,087	-	-	103,087
Items in the course of collection from other banks	1,634	-	-	1,634
Trading portfolio assets	85,048	-	-	85,048
Financial assets designated at fair value	44,552	-	-	44,552
Derivative financial instruments	546,921	-	-	546,921
Available for sale investments	47,979	-	-	47,979
Loans and advances to banks	52,287	-	-	52,287
Loans and advances to customers	517,780	-	-	517,780
Reverse repurchase agreements and other similar secured lending	161,436	-	-	161,436
Prepayments, accrued income and other assets	10,384	-	-	10,384
Investments in associates and joint ventures	174	-	-	174
Investments in subsidiaries	22,073	-	-	22,073
Property, plant and equipment	1,937	-	-	1,937
Goodwill and intangible assets	4,333	-	-	4,333
Current tax assets	166	-	-	166
Deferred tax assets	1,104	-	385	1,489
Retirement benefit assets	1,708	-	(1,636)	72
Total assets	1,602,603	-	(1,251)	1,601,352
Liabilities				
Deposits from banks	108,816	-	-	108,816
Items in the course of collection due to other banks	966	-	-	966
Customer accounts	454,522	-	-	454,522
Repurchase agreements and other similar secured borrowing	193,453	-	-	193,453
Trading portfolio liabilities	28,632	-	-	28,632
Financial liabilities designated at fair value	101,069	-	-	101,069
Derivative financial instruments	535,837	-	-	535,837
Debt securities in issue	83,939	-	-	83,939
Subordinated liabilities	26,764	-	-	26,764
Accruals, deferred income and other liabilities	15,471	-	-	15,471
Provisions	939	-	-	939
Current tax liabilities	979	-	-	979
Deferred tax liabilities	348	-	-	348
Retirement benefit liabilities	109	-	(109)	-
Total liabilities	1,551,844	-	(109)	1,551,735
Total equity				
Shareholders' equity excluding non-controlling interests	50,759	-	(1,142)	49,617
Total equity	50,759	-	(1,142)	49,617
Total liabilities and equity	1,602,603	-	(1,251)	1,601,352

Impact of IAS 19 revised standard on the balance sheet as at 31 December 2013

The adoption of the IAS 19 Revised standard resulted in a change from a defined benefit asset of £2,066m to a defined benefit liability of £1,780m. This movement is due to actuarial losses of £3,846m being recognised on the balance sheet.

Movement between the published and restated balance sheet as at 31 December 2012

The adoption of the IAS 19 Revised and IFRS 10 standards resulted in a decrease of £1,986m in the total assets, an increase of £985m in total liabilities and a reduction of shareholders' equity by £2,971m.

The movement on the retirement benefit assets principally relate to recognised losses, netting adjustments made to reclassify balances from assets to liabilities where the overall scheme is in a net deficit position and changes to asset values due to the removal of the expected return on assets. The movement on the retirement benefit liabilities relates to netting adjustments. Movements on the assets, liabilities and equities balances are shown in the table below:

Notes to the financial statements

Other disclosure matters

Consolidated balance sheet - movement between published and restated

As at 31 December 2012	Published £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Assets				
Cash and balances at central banks	86,175	16	-	86,191
Items in the course of collection from other banks	1,456	17	-	1,473
Trading portfolio assets	145,030	1,322	-	146,352
Financial assets designated at fair value	46,061	568	-	46,629
Derivative financial instruments	469,146	10	-	469,156
Available for sale investments	75,133	-	-	75,133
Loans and advances to banks	40,898	(27)	-	40,871
Loans and advances to customers	425,729	(1,823)	-	423,906
Reverse repurchase agreements and other similar secured lending	176,956	(434)	-	176,522
Prepayments, accrued income and other assets	4,357	5	-	4,362
Investments in associates and joint ventures	570	63	-	633
Property, plant and equipment	5,754	-	-	5,754
Goodwill and intangible assets	7,915	-	-	7,915
Current tax assets	252	-	-	252
Deferred tax assets	3,012	139	408	3,559
Retirement benefit assets	2,303	-	(2,250)	53
Total assets	1,490,747	(144)	(1,842)	1,488,761
Deposits from banks	77,010	2	-	77,012
Items in the course of collection due to other banks	1,573	14	-	1,587
Customer accounts	385,796	(296)	-	385,500
Repurchase agreements and other similar secured borrowing	217,342	(164)	-	217,178
Trading portfolio liabilities	44,794	-	-	44,794
Financial liabilities designated at fair value	78,280	281	-	78,561
Derivative financial instruments	462,468	253	-	462,721
Debt securities in issue	119,581	(56)	-	119,525
Subordinated liabilities	24,422	-	-	24,422
Accruals, deferred income and other liabilities	12,232	300	-	12,532
Provisions	2,766	-	-	2,766
Current tax liabilities	617	-	-	617
Deferred tax liabilities	719	(1)	(377)	341
Retirement benefit liabilities	253	-	1,029	1,282
Total liabilities	1,427,853	333	652	1,428,838
Total equity				
Shareholders' equity excluding non-controlling interests	60,038	(477)	(2,494)	57,067
Non-controlling interests	2,856	-	-	2,856
Total equity	62,894	(477)	(2,494)	59,923
Total liabilities and equity	1,490,747	(144)	(1,842)	1,488,761

Impact of IAS 19 revised standard on the balance sheet as at 31 December 2013

The adoption of the IAS 19 Revised standard resulted in a change from a defined benefit asset of £2,066m to a defined benefit liability of £1,780m. This movement is due to actuarial losses of £3,846m being recognised on the balance sheet.

Movement between the published and restated balance sheet as at 31 December 2012

The adoption of IAS 19 Revised and IFRS 10 standards resulted in a decrease of £1,917m in total assets, an increase of £488m in total liabilities and a decrease of £2,405m of total equity as at 31 December 2012. The effect of adoption on prior periods is shown in the table below.

The movement on the retirement benefit assets principally relate to recognised losses, netting adjustments made to reclassify balances from assets to liabilities where the overall scheme is in a net deficit position and changes to asset values due to the removal of the expected return on assets. The movement on the retirement benefit liabilities relates to netting adjustments. Movements on the assets, liabilities and equities balances are shown in the table below:

Notes to the financial statements

Other disclosure matters

Balance sheet - movement between published and restated The Bank

As at 31 December 2012	Published £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Assets				
Cash and balances at central banks	81,996	-	-	81,996
Items in the course of collection from other banks	1,076	-	-	1,076
Trading portfolio assets	74,719	-	-	74,719
Financial assets designated at fair value	82,237	-	-	82,237
Derivative financial instruments	476,129	-	-	476,129
Available for sale investments	61,753	-	-	61,753
Loans and advances to banks	51,175	-	-	51,175
Loans and advances to customers	474,723	-	-	474,723
Reverse repurchase agreements and other similar secured lending	174,284	-	-	174,284
Prepayments, accrued income and other assets	12,019	-	-	12,019
Investments in associates and joint ventures	174	-	-	174
Investments in subsidiaries	14,718	-	-	14,718
Property, plant and equipment	1,906	-	-	1,906
Goodwill and intangible assets	4,564	-	-	4,564
Current tax assets	119	-	-	119
Deferred tax assets	1,295	-	359	1,654
Retirement benefit assets	2,276	-	(2,276)	-
Total assets	1,515,163	-	(1,917)	1,513,246
Liabilities				
Deposits from banks	83,740	-	-	83,740
Items in the course of collection due to other banks	1,231	-	-	1,231
Customer accounts	481,126	-	-	481,126
Repurchase agreements and other similar secured borrowing	187,148	-	-	187,148
Trading portfolio liabilities	30,105	-	-	30,105
Financial liabilities designated at fair value	91,376	-	-	91,376
Derivative financial instruments	466,321	-	-	466,321
Debt securities in issue	85,173	-	-	85,173
Subordinated liabilities	22,941	-	-	22,941
Accruals, deferred income and other liabilities	14,996	-	-	14,996
Provisions	2,405	-	-	2,405
Current tax liabilities	304	-	-	304
Deferred tax liabilities	446	-	(377)	69
Retirement benefit liabilities	146	-	865	1,011
Total liabilities	1,467,458	-	488	1,467,946
Shareholders' equity				
Shareholders' equity excluding non-controlling interests	47,705	-	(2,405)	45,300
Total shareholders' equity	47,705	-	(2,405)	45,300
Total liabilities and shareholders' equity	1,515,163	-	(1,917)	1,513,246

Impact of IAS 19 revised standard on the balance sheet as at 31 December 2013

The adoption of the IAS 19 Revised standard resulted in a change from a defined benefit asset of £2,066m to a defined benefit liability of £1,780m. This movement is due to actuarial losses of £3,846m being recognised on the balance sheet.

Movement between the published and restated cash flow statement for 31 December 2012

The adoption of the IAS 19 Revised and IFRS 10 standards mainly impacted the net cash from operating activities which further decreased by £107m during the year ending 2012. The cash and cash equivalents at the beginning of the year increased by £96m while the cash and cash equivalents at the end of the year reduced by £11m.

However, the adoption of the IAS 19 Revised had no impact on the cash movements for the years ended 2012 and 2013.

Notes to the financial statements

Other disclosure matters

Consolidated cash flow statement - movement between published and restated

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Continuing operations				
Reconciliation of profit before tax to net cash flows from operating activities:				
Profit before tax	99	573	(22)	650
Allowance for impairment	3,596	(256)	-	3,340
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	1,119	-	-	1,119
Other provisions, including pensions	3,057	23	-	3,080
Net profit on disposal of investments and property, plant and equipment	(524)	-	-	(524)
Other non-cash movements	5,018	96	22	5,136
Net decrease/(increase) in loans and advances to banks and customers	1,167	(400)	-	767
Net (increase)/decrease in reverse repurchase agreements and other similar lending	(23,291)	(201)	-	(23,492)
Net (decrease)/increase in deposits and debt securities in issue	(4,518)	206	-	(4,312)
Net increase /(decrease) in repurchase agreements and other similar borrowing	10,050	(164)	-	9,886
Net decrease/(increase) in derivative financial instruments	4,488	(83)	-	4,405
Net decrease/(increase) in trading assets	6,893	3	-	6,896
Net (decrease)/increase in trading liabilities	(973)	-	-	(973)
Net (increase)/decrease in financial investments	(18,838)	74	-	(18,764)
Net decrease in other assets	555	(20)	-	535
Net (decrease) in other liabilities	(1,396)	42	-	(1,354)
Corporate income tax paid	(1,516)	-	-	(1,516)
Net cash from operating activities	(15,014)	(107)	-	(15,121)
Purchase of available for sale investments	(80,796)	(1)	-	(80,797)
Proceeds from sale or redemption of available for sale investments	74,148	3	-	74,151
Purchase of property, plant and equipment	(604)	-	-	(604)
Other cash flows associated with investing activities	532	-	-	532
Net cash from investing activities	(6,720)	2	-	(6,718)
Dividends paid	(1,390)	-	-	(1,390)
Proceeds of borrowings and issuance of subordinated debt	2,258	-	-	2,258
Repayments of borrowings and redemption of subordinated debt	(2,680)	-	-	(2,680)
Net redemption of shares issued to non-controlling interests	(111)	-	-	(111)
Net cash from financing activities	(1,923)	-	-	(1,923)
Effect of exchange rates on cash and cash equivalents	(4,109)	(2)	-	(4,111)
Net (decrease)/increase in cash and cash equivalents	(27,766)	(107)	-	(27,873)
Cash and cash equivalents at beginning of year	149,673	96	-	149,769
Cash and cash equivalents at end of year	121,907	(11)	-	121,896
Cash and balances at central banks	86,175	16	-	86,191
Loans and advances to banks with original maturity less than three months	33,500	(27)	-	33,473
Available for sale treasury and other eligible bills with original maturity less than three months	2,228	-	-	2,228
Trading portfolio assets with original maturity less than three months	4	-	-	4
	121,907	(11)	-	121,896

Movement between the published and restated cash flow statement for 31 December 2012

The adoption of the IAS 19 Revised resulted in loss before tax increasing by £47m and other non-cash movements increasing by £47m. The implementation of IFRS 10 had no impact on The Bank's cash flow statement for 31 December 2012.

However, the adoption of the IAS 19 Revised had no impact on the cash movements for the years ended 2012 and 2013.

Notes to the financial statements

Other disclosure matters

Consolidated cash flow statement - movement between published and restated The Bank

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Continuing operations				
Reconciliation of profit before tax to net cash flows from operating activities:				
(Loss)/Profit before tax	(3,776)	-	(47)	(3,823)
Adjustment for non-cash items:				
Allowance for impairment	4,405	-	-	4,405
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	513	-	-	513
Other provisions, including pensions	2,998	-	-	2,998
Net profit on disposal of investments and property, plant and equipment	(558)	-	-	(558)
Other non-cash movements	3,881	-	47	3,928
Changes in operating assets and liabilities				
Net decrease/(increase) in loans and advances to banks and customers	42,571	-	-	42,571
Net (increase)/decrease in reverse repurchase agreements and other similar lending	(12,848)	-	-	(12,848)
Net increase/(decrease) in deposits and debt securities in issue	2,762	-	-	2,762
Net (decrease)/increase in repurchase agreements and other similar borrowing	(6,305)	-	-	(6,305)
Net decrease/(increase) in derivative financial instruments	1,276	-	-	1,276
Net decrease/(increase) in trading assets	10,244	-	-	10,244
Net increase/(decrease) in trading liabilities	1,473	-	-	1,473
Net (increase)/decrease in financial investments	(47,387)	-	-	(47,387)
Net decrease in other assets	(1,077)	-	-	(1,077)
Net (decrease) in other liabilities	(2,298)	-	-	(2,298)
Corporate income tax paid	(130)	-	-	(130)
Net cash from operating activities	(4,256)	-	-	(4,256)
Purchase of available for sale investments	(78,360)	-	-	(78,360)
Proceeds from sale or redemption of available for sale investments	64,632	-	-	64,632
Purchase of property, plant and equipment	(377)	-	-	(377)
Other cash flows associated with investing activities	4,819	-	-	4,819
Net cash from investing activities	(9,286)	-	-	(9,286)
Dividends paid	(1,162)	-	-	(1,162)
Proceeds of borrowings and issuance of subordinated debt	1,894	-	-	1,894
Repayments of borrowings and redemption of subordinated debt	(4,996)	-	-	(4,996)
Net cash from financing activities	(4,264)	-	-	(4,264)
Effect of exchange rates on cash and cash equivalents	(3,102)	-	-	(3,102)
Net (decrease)/increase in cash and cash equivalents	(20,908)	-	-	(20,908)
Cash and cash equivalents at beginning of year	128,572	-	-	128,572
Cash and cash equivalents at end of year	107,664	-	-	107,664
Cash and cash equivalents comprise:				
Cash and balances at central banks	81,996	-	-	81,996
Loans and advances to banks with original maturity less than three months	25,304	-	-	25,304
Available for sale treasury and other eligible bills with original maturity less than three months	360	-	-	360
Trading portfolio assets with original maturity less than three months	4	-	-	4
	107,664	-	-	107,664

Barclays risk review

Risk management

There are no differences in the manner in which risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group. Therefore the risk management for Barclays PLC which includes the Barclays Bank PLC Group is disclosed within this section.

The following pages provide a comprehensive overview of Barclays 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.

Barclays Risk Management Strategy

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

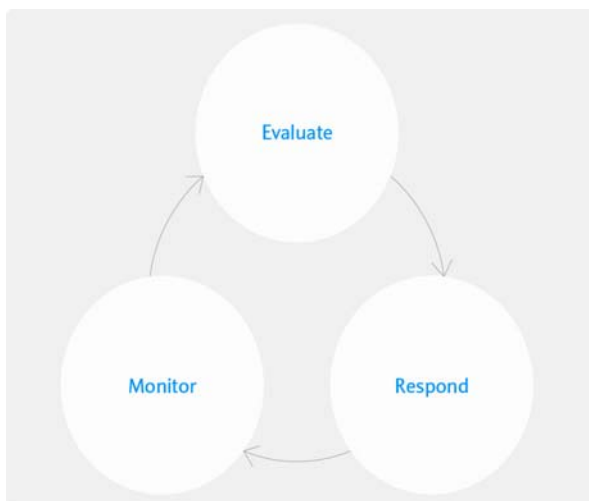
At a strategic level, the risk management objectives are to:

- Identify The Group's significant risks;
- Formulate The Group's risk appetite and ensure that the business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as closely 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 the risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and coordination of risk taking across the business.

In February 2013, Barclays announced the outcome of its strategic review and set out its commitments for 2015 which are critical to making Barclays the "Go-To" bank for all its stakeholders.

As part of this commitment the Barclays 'Go-To' Enterprise Risk Management Framework (ERMF) sets out the activities, tools, techniques and organisational arrangements so that material risks facing the Bank can be better identified and understood, and that appropriate responses are in place to protect Barclays and prevent detriment to its customers, colleagues or community. This will help the Bank meet its goals, and enhance its ability to respond to new opportunities.

The aim of the 'Go-To' 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 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.



- 1. 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.
- 2. Respond:** The appropriate risk response effectively and efficiently ensures that risks are kept within appetite, which is the level of risk that Barclays is prepared to accept whilst pursuing its business strategy. There are three types of response: accept the risk but take the necessary mitigating actions such as using risk controls, stop the existing activity/do not start the proposed activity, or continue the activity but lay off risks to another party e.g. insurance.
- 3. 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 review

Risk management

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 our 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 289 to 290)

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

In every area of Barclays' 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 'Go-To' bank.

Barclays risk culture is the set of objectives and practices, shared across the organisation, that drive and govern risk management.

The Salz Review^a issued recommendations to improve the culture of Barclays. Specifically, to develop a consistently strong risk culture, the report recommended:

- Embedding a strong, consistent risk control framework in all the businesses, that articulates responsibilities across the three lines of defence, and that reinforces the role of the front line;
- Clear risk appetite statements for all types of risk, embed adherence in all business units, and reinforce with strong management actions in cases of breaches; and
- Embedding risk and compliance criteria in performance evaluations, and in remuneration and promotion decisions.

During 2013 work streams have been initiated which implement the recommendations and help position the risk function to effectively and efficiently support Barclays' strategy.

The 'Transform Risk' initiative

During 2013 a new global management structure for risk was unveiled to improve delivery against the Transform commitments, to meet the demands of the regulators, the Board, and the wider business and also to create an appropriate environment for risk colleagues to work, advance their careers and contribute to the success of the Bank.

'Transform Risk' is being led by the Risk Executive Committee, coordinated by the global Risk COO, and supported by a team of people from across the risk function. It represents a significant shift in the operating model, process and systems, and will support the drive for both greater effectiveness and efficiency.

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 has been captured in the new Enterprise Risk Management Framework (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.

The components of the ERMF set out a philosophy and approach that is applicable to the whole bank, to all colleagues and to all types of risk, hence establishing, maintaining and improving the risk culture of Barclays.

See Risk Governance and Assigning Responsibilities on page 288 for more information.

Note

^a An independent review by Anthony Salz, commissioned by the Board.

Barclays risk review

Risk management

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, Barclays has communicated clear statements 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 we seek to avoid and why, to constrain specific risk taking activities;
- It will be embedded within key decision-making processes including business planning, mergers and acquisitions, new product approvals and business change initiatives;
- It provides for performance management and disciplinary consequences in cases of breach; and
- Ultimately owned by The Group CEO, who is responsible for leading, managing and organising executive management to achieve execution of the Barclays strategy and business plans in line with risk appetite.

See Risk Appetite on page 297 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 promoting them:

- 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 Barclays 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.

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. Barclays distributes these responsibilities 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 reside with senior managers, risk oversight committees, the independent Group Risk function, the Board Financial Risk Committee (BFRC), Board Conduct, Reputation and Operational Risk Committee (BCROR), Board Enterprise Wide Risk Committee (BEWRC) and, ultimately, the Board.

As part of the Transform programme, The Group has introduced the Enterprise Risk Management Framework (ERMF) which sets out standard group-wide governance arrangements. It also sets out the roles and responsibilities of all employees with respect to risk management, including the Chief Risk Officer and the Chief Executive Officer. The ERMF is a key deliverable of the programme and sets out a comprehensive and effective approach for the management of all risks at Barclays and supports the step change in risk management and control including:

- Sustainable and consistent implementation of the three lines of defence (see three lines of defence below);
- Further improvements to the management of risks including increased focus on Conduct and Reputational risks;
- Consistent application of Barclays risk appetite across all Principal Risks; and,
- Streamlining and simplification of the policy hierarchy.

The ERMF is intended to be widely read and to set out a philosophy and approach that is applicable to the whole bank, all colleagues and to all types of risk. It also sets out specific requirements for key individuals, including the Chief Risk Officer and Group Chief Executive, to undertake and the overall governance framework that will oversee its effective operation.

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 Bank to meet its goals, and enhance our ability to respond to new opportunities.

The ERMF includes those risks incurred by Barclays that are foreseeable, continuous, and material enough to merit establishing specific bank-wide control frameworks. These are known as Key Risks and are grouped into six Principal Risks. Conduct and Reputation risks were reclassified as Principal Risks in 2013. See Principal Risks on page 294 for more information.

Barclays risk review

Risk management

A clear and consistent control framework entails specific responsibilities. As a result, not only has the definition of the three lines of defence been clarified (see Three Lines of Defence below) but its scope has been extended to all businesses and functions. This creates the proper context for setting standards and establishing the right practices throughout the bank. See Risk Culture on page 287 for more information.

Three lines of defence

The three lines of defence operating model enables Barclays to separate risk management activities between those parties that:

1. Own and take risk, and implement controls (first line);
2. Oversee and challenge the first line, provide second line risk management activity and support controls (second line); and
3. Provide assurance that the E-R-M process is fit for purpose, and that it is being carried out as intended (third line).

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, whilst still promoting collaboration and the flow of information between all areas:

First Line: Own and take risk, and implement controls

First line activities are characterised by:

- Ownership of and direct responsibility for Barclays returns or elements of Barclays P&L; or
- Ownership of major operations, systems and processes fundamental to the operation of the bank; or
- 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; and
- Design, ownership or operation of Key Risk Control Frameworks impacting the activities of the first line of defence; and
- Operation of certain second line risk management activities; 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 Enterprise Risk Management Framework;
- 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 Bank 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.

Barclays risk review

Risk management

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, without taking responsibility for the operations of the bank or the definition of the Enterprise Risk Management Framework and Group Policies.

Governance

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, we deliver on our objectives.

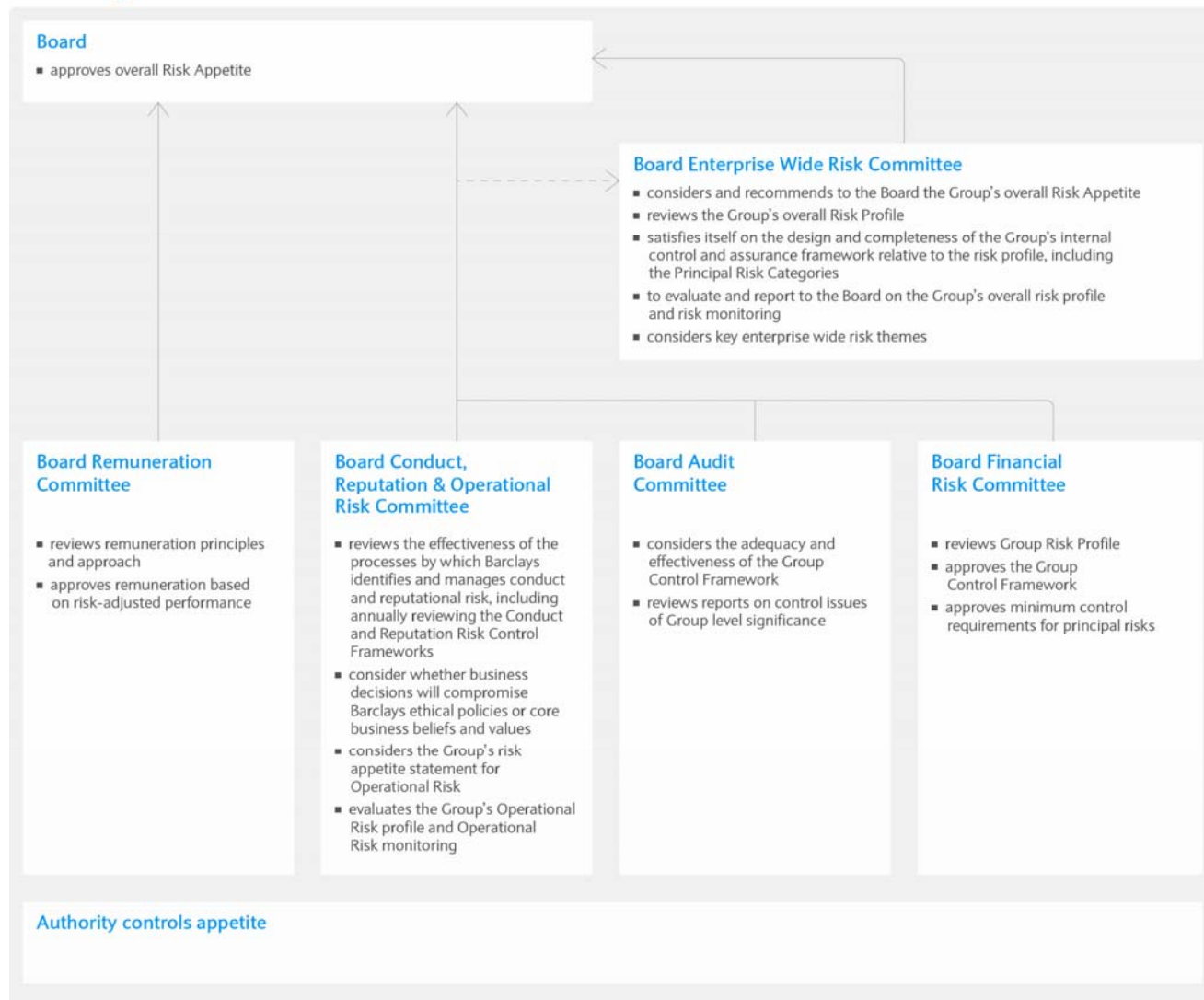
Barclays faces risks throughout its business, every day, in everything it does. Some risks we choose to take after appropriate consideration – like lending money to a customer. Other risks may arise from unintended consequences of internal actions, for example an IT system failure or poor sales practices.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

All employees must play their part in the Bank's risk management, regardless of position, function or location, and 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 Enterprise Risk Management Framework, risk management process and governance arrangements.

Barclays risk review

Risk management

Board Oversight



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, Reputation and Operational Risk Committee.

The Board

The Board (Board of Directors of Barclays PLC) is responsible for approving risk appetite 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. 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 via The Group's ERMF.

Barclays risk review

Risk management

The Board Enterprise Wide Risk Committee (BEWRC)

The BEWRC was introduced in 2013 and 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; and
- Satisfy itself on the design and completeness of The Group's internal control and assurance framework relative to the risk profile, including the Principal Risk Categories.

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

The Board Financial Risk Committee (BFRC)

BFRC monitors The Group's risk profile against the agreed 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. Barclays first established a separate BFRC in 1999 and 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 Chief Risk Officer or senior risk managers in the businesses. The Chair of the Committee prepares a statement each year on its activities (see the BFRC Chairman's report on page 70 of the Barclays PLC Annual Report).

The Board Conduct, Reputation and Operational Risk Committee (BCROR)

The BCROR was created in 2013 in order to strengthen the Board-level governance over conduct risk and reputation matters. It reviews the effectiveness of the processes by which Barclays identifies and manages conduct and reputational risk and considers whether business decisions will compromise Barclays 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 reports on risk to assist them in the undertaking of their duties. See the BCROR Chairman's Report on page 73 of the Barclays PLC Annual Report for additional details of its membership and activities of the BCROR.

The Board Audit Committee (BAC)

The BAC receives quarterly reports on control issues of significance 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. See the BAC Chairman's Report on page 62 of the Barclays PLC Annual Report for additional details on the membership and activities of the BAC.

See the BCROR Chairman's Report on page 73 of the Barclays PLC Annual Report for additional details of its membership and activities.

The Board Remuneration Committee (BRC)

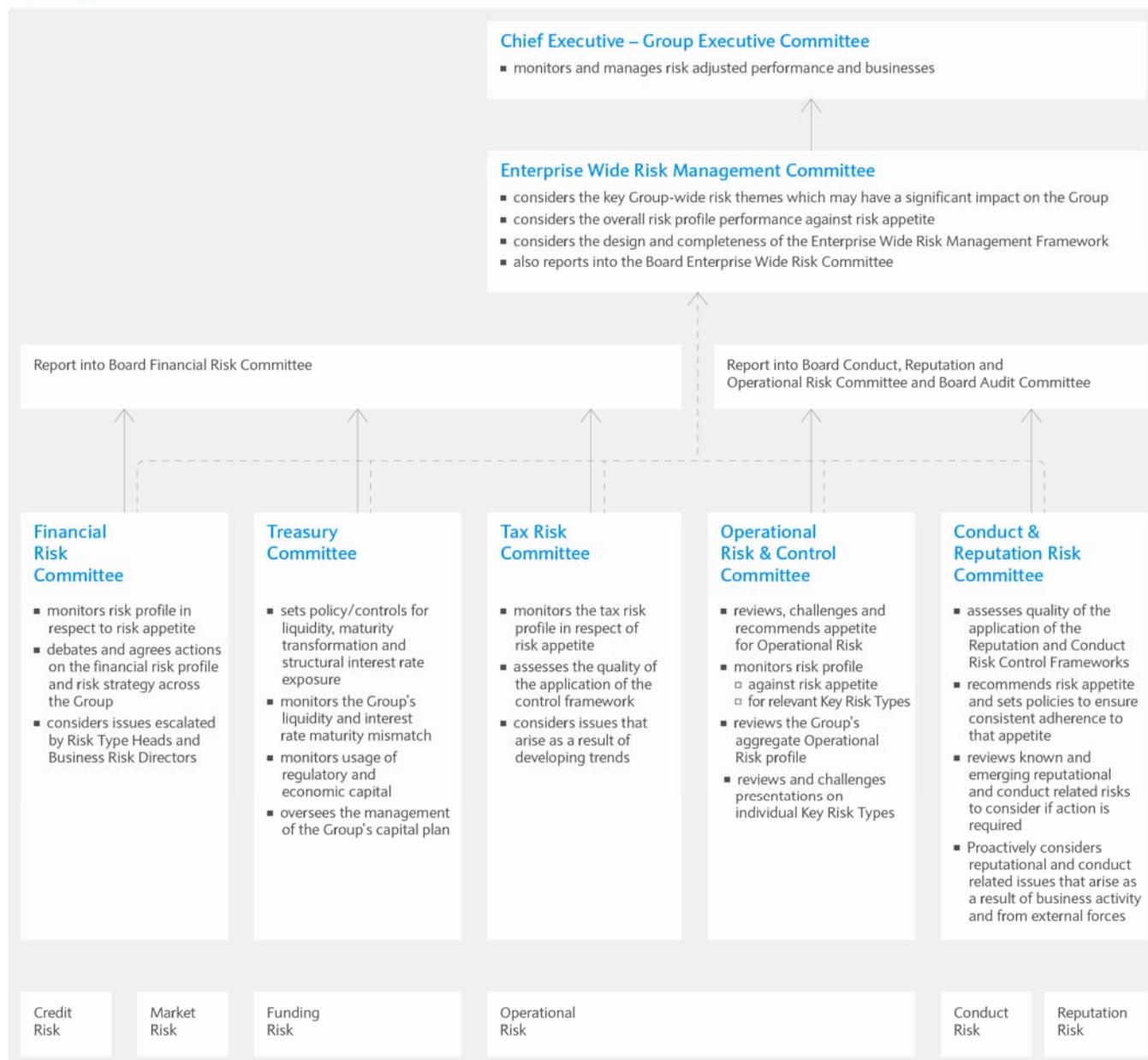
The BRC receives a detailed report on risk management performance from the BFRC which is considered in the setting of performance objectives in the context of incentive packages. See the Remuneration Report on page 89 of the Barclays PLC Annual Report for additional details on membership and activities of the Board Remuneration Committee.

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 83 to 85 of the Barclays PLC Annual Report. The terms of reference for each of the principal Board Committees are available from the Corporate Governance section at: <http://group.barclays.com/About-us/Management-structure/Corporate-governance>.

Barclays risk review

Risk management

Reporting and Control



The launch of the Transform programme and subsequent introduction of the ERMF has introduced a more integrated 'One Risk' approach to how The Group manages risk, including governance, risk appetite, processes, and the effectiveness of its controls, together with leveraging colleague development opportunities.

During its day-to-day operations The Group faces a number of risks, which may be: i) assessed and considered appropriate (e.g. granting a loan to a customer); ii) as a result of unintended consequences of internal actions (e.g. IT system failure); or (iii) as a result of events outside The Group's control but which impacts our business (e.g. financial disruption in a region in which The Group operates).

The Group's approach to risk taking is structured, systematic and comprehensive, built into the decision making as objectives and aligned to the Evaluate, Respond and Monitor (E-R-M) process as defined in the section 'Barclays Risk Management Strategy'.

Barclays risk review

Risk management

The Enterprise Wide Risk Management Committee (EWRMC) was created in 2013 and was established by, and derives its authority from, The Group Chief Risk Officer (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 Group CRO, Group Chief Executive Officer (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 providing a recommendation to the Board. Risk appetite therefore sets the 'tone from the top' and provides a basis for ongoing dialogue between management and Board level around Barclays' current and evolving risk profile.

The CRO manages the independent Group 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 Group Risk function, are risk type heads for retail credit risk, wholesale credit risk, market risk, operational risk and fraud risk. 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 Group 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 type heads within The Group Risk function and the BCROs within the businesses report to the Chief Risk Officer and are members of the FRC or ORCC as appropriate.

During 2013 a Risk Executive Committee was created, which 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 from the risk centre and the businesses.

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

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 of The Group's liquidity and interest rate maturity mismatch;
- Monitors of 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

Principal Risks

Risk management responsibilities are laid out in the ERMF, which covers the categories of risk in which Barclays 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 (for financial risks) and risk tolerances (for non-financial risks); and
- Ensures regular reporting of both risk exposures and the operating effectiveness of controls.

A Principal Risk comprises individual Key Risk Types to allow for more granular analysis of the risk associated within it. The six Principal Risks are: i) Credit; ii) Market; iii) Funding; iv) Operational; v) Conduct; and vi) Reputation.

Each Key Risk is owned by a senior individual known as The Group Key Risk Officer who is responsible for developing a risk appetite statement and overseeing and managing the risk in line with the EMRF. This includes the documentation, communication and maintenance of a risk control

Barclays risk review

Risk management

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. Six-monthly reviews support the regulatory requirement for Barclays to make an annual statement about its system of internal controls.

Group 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:

BFRC:

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

and, BCRORC:

- 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; and
- Conduct and Reputation Risk Committee has oversight of the Conduct and Reputation Risks.

Each Group Key Risk Officer also undertakes an annual programme of risk based conformance reviews.

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 process. Testing results provide management with a view of the effectiveness of the control environment supporting their operations.
- Conformance review – is a planned, risk based programme of activity to assess the quality of conformance testing. Conformance review is undertaken by individuals who are independent of the management team running the operations. Review results enable management to assess how much assurance they can place on the results of conformance testing. Conformance testing and conformance review may also identify opportunities for improvement to policies and standards.

Assurance: Undertaken to independently assess the overall enterprise risk management framework, 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.

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 external advisers is also carried out periodically.

The Executive Models Committee (EMC) is chaired by the Chief Risk Officer. The EMC, reports into the Enterprise Wide Risk Management Committee and fulfils the specific requirement of approving The Group's most material (A*) models, as required by the PRA. The EMC receives submissions from the businesses responsible for the A* models and reviews and approves A* models and Post Model Adjustments (PMAs) related to those models.

The Disclosure Committee reviews and evaluates The Group's disclosure controls and procedures and has responsibility for considering the materiality of information and determining disclosure obligations on a timely basis. It is chaired by The Group Finance Director. It reports into The Group Executive Committee and the BAC.

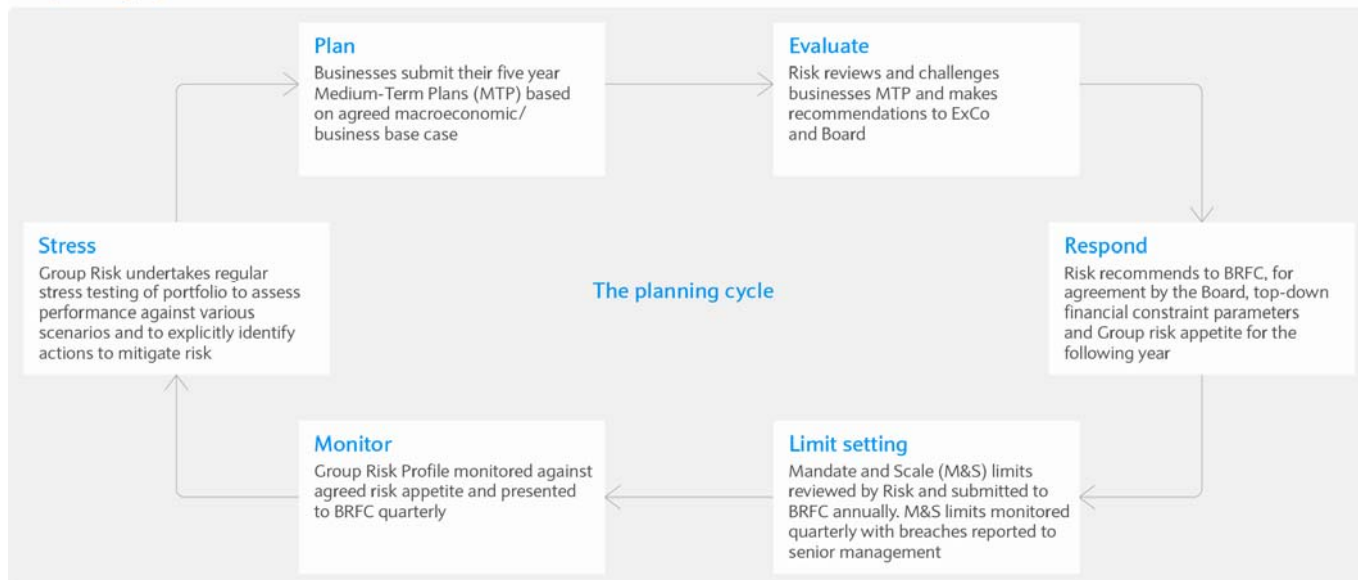
Risk management in the setting of strategy

The planning cycle is centred on the medium term planning (MTP) process, performed once a year. This embeds Group's objectives into detailed business plans which take account the likely business and macroeconomic environment. The risk functions at Group and business levels are heavily involved in this process.

Barclays risk review

Risk management

The planning cycle



In addition to supporting transaction decisions, the measurement and control of credit, market, operational and other risks have considerable influence on Barclays' strategy. The Board is solely responsible for approving the MTP, the associated risk appetite statement, and the capital plans. As such, the business plans of Barclays must incur a level of risk that falls within the Board's tolerance, or be modified accordingly. The BRFC has been in place since 1999 and is devoted to review the firm's risk and make appropriate recommendations to the Board. For details of the activities of the Board and the BRFC in 2013 see the Governance Structure section on pages 380 to 381 and the BRFC Chairman's report on page 70 of the Barclays PLC Annual Report.

The risk appetite and The Group-wide stress testing processes, described below, are closely linked to the MTP process and also support strategic planning and capital adequacy. 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 M&S limits to ensure The Group stays within appetite. Stress testing informs management on the impact to the business of detailed scenarios. Integral to The Group-wide stress testing process is to explicitly identify a set of actions that management would take to mitigate the impact of a stress.

One of the main objectives of managing risk is to ensure that Barclays achieves an adequate balance between capital requirements and resources. The capital planning cycle is fully integrated within strategic planning.

Medium Term Planning (MTP) process

The MTP process, performed annually, requires each business to present its plans for business performance over the coming five years (with a key focus on the first three years of the plan). The MTP details the businesses strategy, the portfolio composition and the expected risk trends. Achieving the planned performance in each business is dependent upon the ability of the business to manage its risks. It is an iterative process featuring weekly reviews at the most senior levels as the plan is updated until final agreement. The output includes a detailed statement of The Group's strategy over the medium-term, as well as detailed financial projections.

Risk managers support the MTP by providing robust review and challenge of the business 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. This culminates in the risk review meetings in which the CRO and senior management in each of our businesses discuss the findings from the risk reviews, and changes to the business plans are mandated as necessary.

The business plans are prepared with reference to a consistent set of economic assumptions which are agreed by senior management and reviewed within Group Risk to ensure that they appropriately reflect emerging risk trends. They are used as baseline scenarios in the stress testing and risk appetite processes.

The output from the business plan forms the basis of all strategic processes. In particular, the plans comprise projections of capital resources and requirements given profit generation, dividend policy and capital issuance. Risk variables are also considered, most importantly in the forecasting of The Group's impairment charge, on the assessment of the business capital requirements going forward and in sensitivity analyses of the plans (which include risk appetite and stress testing).

Barclays risk review

Risk management

Risk Appetite

Risk appetite is defined as the level of risk that Barclays is prepared to accept whilst 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 Barclays' current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis.

At Barclays, 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 Barclays 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 breaches of risk appetite and/or limits will result in performance management and disciplinary consequences.

Barclays risk review

Risk management

Setting risk appetite

In this regard, The Group CEO is responsible for:

- Leading the development of the Barclays strategy and business plans that align to our Goal, Purpose and Values and includes a risk appetite and risk profile proposal for Board approval;
- Leading, managing and organising executive management to achieve execution of the Barclays strategy and business plans in line with the Board approved Purpose, Values, Code of Conduct ('the Barclays Way') and risk appetite. This includes assessing risk holistically, ensuring the soundness of the financial position of Barclays, and that due consideration is given to the impact of Barclays on society, customers and clients, colleagues and the wider financial system;
- Barclays' performance including financial and operational activities, risk profile (current and outlook) compared to approved risk appetite, and compliance with all laws, regulations and the Barclays Operating Framework; and
- Providing accurate, transparent and timely reporting to the Board on Barclays' performance against plan, and include the risk profile (current and outlook) compared to risk appetite under normal and stressed scenarios.

The Group CRO is responsible for:

- Providing oversight, advice and challenge to the CEO with respect to the strategic plan;
- Management of the risk appetite setting processes;
- Recommending risk appetite to the Board;
- Ensuring the Board receive regular management information that compares the risk appetite set for Barclays and the businesses by risk type and in aggregate where appropriate; and
- Developing, operating and maintaining a comprehensive risk management framework for Barclays that ensures the business performs in line with the approved risk appetite.

The Board review and approve risk appetite in aggregate and for all individual Principal Risks.

The Risk function is responsible for implementation, operation and monitoring of the bank's approach to risk appetite.

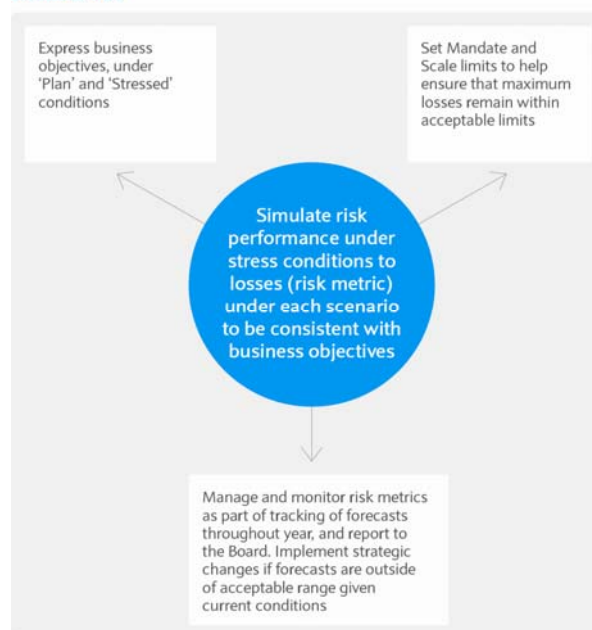
Risk appetite is formally reviewed on an annual basis in conjunction with the Medium-Term Planning (MTP) process.

Group-wide stress tests are an integral part of the annual MTP process and ensure that The Group's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic stress. A key objective of The Group-wide stress test process is to identify and document management actions that would be taken to mitigate the impact of stress. The bottom-up process ensures all levels of management are informed of the impact of the stress scenarios and are aware of appropriate management actions to be taken when a stress event occurs. The approach also includes reverse stress testing techniques which aim to identify the circumstances under which our business model would become no longer viable, leading to a significant change in business strategy. See Stress testing below for more information.

Risk appetite is approved and disseminated across Key Risks and businesses, including the use of 'M&S' limits to enable and control specific activities that have material concentration risk implications for The Group. These limits also help avoid large one-off losses that are specific to Barclays and outside stakeholder expectations.

Barclays has run a risk appetite process since 2004 and this process comprises 'Financial Volatility', which is the level of potential deviation from expected financial performance Barclays is prepared to sustain, and 'Mandate and Scale', which ensures The Group stays within appetite. The strategy and business activities are reflected in key performance metrics, which are dependent in large part on risk performance.

Simulate risk



Barclays risk review

Risk management

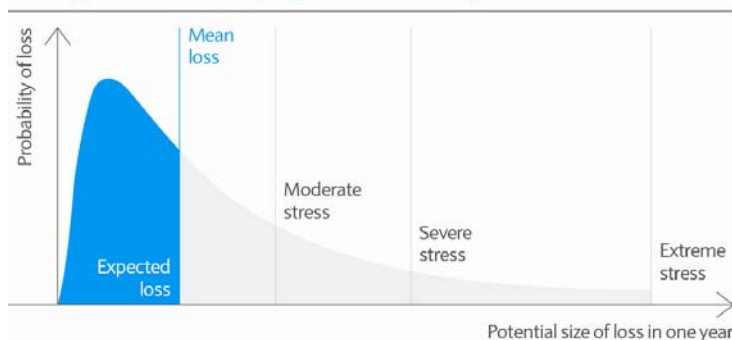
Financial volatility

Financial volatility is defined as the level of potential deviation from expected financial performance that Barclays 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. The Group's risk profile is assessed via a 'bottom-up' analysis of The Group's business plans to establish the volatility of the key metrics. If the projections entail too high a level of risk (i.e. breach the top-down financial objectives at the through-the-cycle, moderate or severe level), management will challenge each area to re-balance the risk profile to bring the bottom-up risk appetite back within top-down appetite. Performance against risk appetite usage is measured and reported to the Executive Committee and the Board regularly throughout the year. Our top-down appetite is quantified through an array of financial performance and capital metrics which are reviewed by the Board on an annual basis. For 2013, the strategic metrics in the table below were set at three levels: 'through-the-cycle', and stressed 'one in seven' and 'one in twenty-five', which are defined as:

- 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.

Risk appetite concepts (diagram not to scale)



The potentially larger but increasingly less likely levels of loss are illustrated in the risk appetite concepts chart above. 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 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.

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.
Core Tier 1 and leverage ratios	Monitors our capital adequacy in relation to capital plan.
Dividends	Measures the risks of being able to continue paying appropriate dividends.

In summary, the stress levels represent the risk tolerance of Barclays in terms of its key objectives. These objectives act as constraints on risk performance and imply maximum levels of acceptable losses that are tracked quarterly and reported to the Board. Any breaches must be approved and remedial actions mandated.

Barclays risk review

Risk management

Mandate and Scale

The second element to the setting of risk appetite in Barclays 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 Barclays mandate (i.e. aligned with expectations), and are of an appropriate scale (relative to the risk and reward of the underlying activities). Barclays achieves this 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. These limits are set by the independent risk function, formally monitored each month and subject to Board-level oversight.

For example, in our 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.

Barclays uses the Mandate and Scale framework 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 & Scale limits, further limits are set by risk managers within each business unit, covering particular portfolios.

Interaction of risk appetite with business strategy

The strategy and business activities are reflected in key performance metrics, which are dependent in large part on risk performance. Risk appetite, as described above, helps to ensure that the strategy is adaptable to various degrees of financial stress.

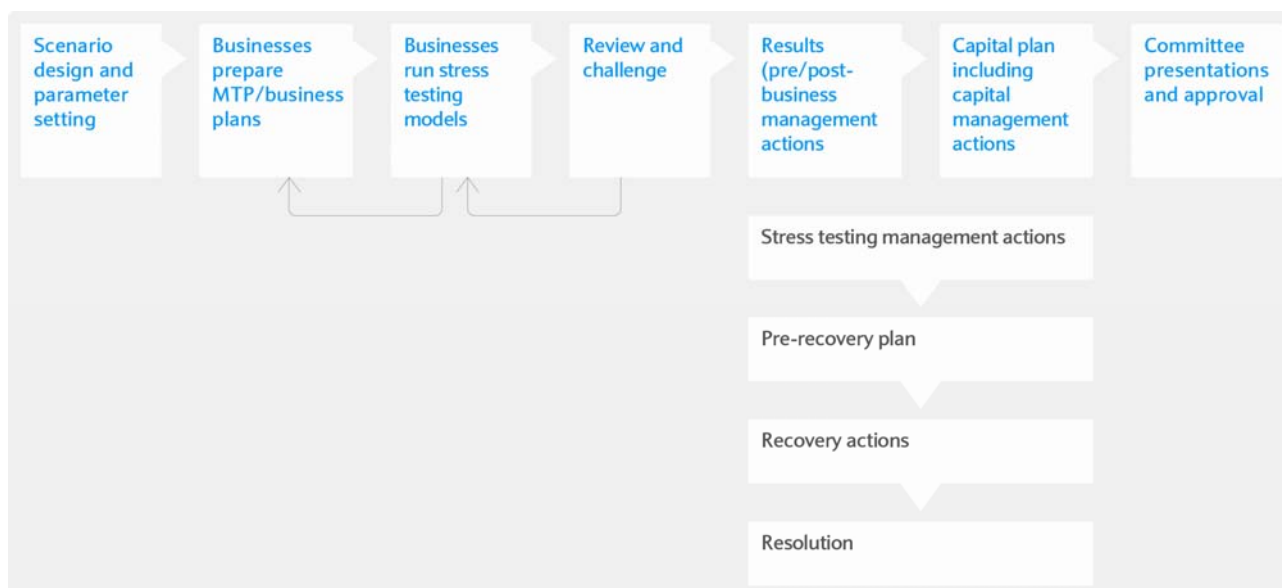
Each year, the MTP process ensures that appetite takes account of the strategy (detailed in the Barclays risk management strategy section on page 296).

The Group risk profile developing in the plan is assessed in the financial volatility scenarios via a bottom-up process; this is then compared with the top-down view articulated via the key financial metrics described above. Any gap between the two views is challenged by management in order to re-balance the risk profile and bring the bottom-up risk appetite back within top-down appetite.

For further information on Risk factors and the Operating and business environment, refer to the Risk Factors section (see page 50).

Stress Testing

Group-wide stress tests are an integral part of the annual MTP process and annual review of risk appetite to ensure that The Group's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic stress. The following diagram outlines the key steps in The Group-wide stress testing process, which are described below. Barclays also maintains Recovery Plans which consider actions to facilitate recovery from severe stress or an orderly resolution. These actions are additional to those included in The Group-wide stress testing process described in this section.



Barclays risk review

Risk management

- Scenario design and setting:** BFRC agrees the range of scenarios to be tested and the independent Group Risk function leads the process. Macroeconomic stress test scenarios are designed to be both severe and plausible, and relevant to our business. The following diagram summarises the process for designing and agreeing the scenarios to be run. The process includes Group Risk consultation with economists in the businesses. This ensures relevance of scenarios to our businesses and a consistent interpretation of the scenarios across The Group.

Scenario design and setting



At The Group level, stress test scenarios capture a wide range of macroeconomic variables that are required to assess the impact of the stress scenario for each portfolio, and reflect the wide range of models used across The Group to assess the impact of the stress. This includes for example, GDP, unemployment, asset prices, foreign exchange rates and interest rates. Economic parameters are set using expert judgement and are calibrated using historical and quantitative analysis to ensure internal coherence and appropriate severity. In addition, our scenarios are tested against the PRA's stress test scenarios.

Examples of types of scenarios/themes run as Group-wide stress tests include:

- A global recession scenario capturing the wide range of businesses across Barclays;
 - US-centred macroeconomic scenario; and
 - A peripheral Eurozone stress as part of the reverse stress testing framework (see below).
- Businesses prepare MTP/business plans:** each business prepares detailed business plans which are used as the baseline for running their stress test analysis. The MTP business plans are prepared at performance cell level across a detailed set of performance metrics covering income, impairment, balance sheet and RWA information (which is also reflected in the stress testing results) - see page 296 for further details on the MTP process. The stress testing results are used to inform MTP business plans, so there may be a number of iterations before the MTP business plans are finalised.
- Businesses run stress testing models:** the stress testing process is detailed and comprehensive using bottom-up analysis performed by each of Barclays' businesses, covering detailed performance metrics as outlined above and results are produced for each performance cell. It includes all aspects of The Group's balance sheet across all risk types and is forward looking over a five year period. Our stress testing approach combines running statistical models with expert judgement to ensure the results accurately reflect the impact of the stress test economic scenario. An overview of our stress testing approach by Principal Risk is provided in the table below:

Principal Risk	Stress testing approach
Credit risk	<ul style="list-style-type: none"> 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 loss given default (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 macroeconomic 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 counterparty credit risk. 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 procyclicality of underlying regulatory credit risk models.

Barclays risk review

Risk management

- 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 counterparty credit risk 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; and
- 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 assessed as part of economic scenario assessments, 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 125
- Management of Conduct risk is described on page 128
- Management of Reputation risk is described on page 126

- **Review and challenge:** the business' stress test methodologies and results are subject to a detailed review and challenge both within the businesses (including review and sign-off by business CROs) and by Head Office Functions. In particular, this includes detailed risk review of both the stressed estimates (e.g. impairments), and the methodology used to translate the economic scenario to stressed estimates. Businesses are required to document their stress test methodologies and results, including key assumptions made. The stress testing results are presented and discussed as part of the MTP risk reviews held between each business and Barclays CRO.
- **Results (pre- and post-business management actions):** a key objective of The Group-wide stress test process is to identify and document management actions that would be taken to mitigate the impact of stress. Businesses are required to report results both pre- and post-business management actions, such as cost reductions and increased collections activity to reduce impairments, and to document these actions. The bottom-up process ensures all levels of management are informed of the impact of the stress scenarios and are aware of appropriate management actions to be taken when a stress event occurs. For instance, during the recession of 2008-2010 a programme of work based on the stress management actions was implemented and directly overseen by The Group Executive Committee.
- **Capital plan including capital management actions:** the business' stress test results are aggregated to form a Group view of the impact of the stress, which are used by Barclays Treasury Capital Management to determine the stress impact on The Group capital plans. As part of this assessment, capital management actions such as reducing dividend payments or redeeming certain capital instruments may be considered. These are in addition to the business management actions included in business' stress testing results. Further management actions available in Barclays' recovery plan that are not included in The Group-wide stress testing results.
- **Committee presentations and approval of stress scenario results:** the stress test results are presented for review by the Executive Committee and BFRC, and are also shared with the Board.

The results of our H2 2013 internal Group-wide stress test exercise show that The Group's profit before tax remains positive under the modelled severe global stress scenario, with The Group remaining well capitalised above the required regulatory minimum level. The stress test results are also shared with the PRA, e.g. as part of our internal capital adequacy assessment process (ICAAP) submission.

Barclays risk review

Risk management

Reverse stress testing

The Group-wide stress testing framework also includes reverse stress testing techniques which aim to identify the circumstances under which Barclays' 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 Euro area, 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 ran in 2010.

Business and risk type specific stress tests

Barclays also uses stress testing techniques at portfolio and product level 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.

Information on The Group's stress testing specifically relating to liquidity risk is set out in the Funding risk – Liquidity section. Further information on market risk stress testing is provided in the Market risk section.

Barclays risk review

Risk management

Credit Risk Management

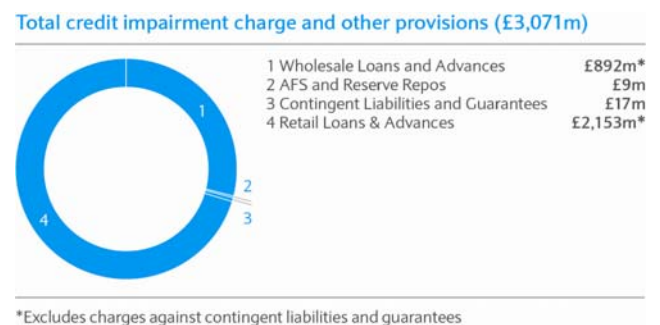
Credit risk is the risk of suffering financial loss should any of The Group's customers, clients or market counterparties fail to fulfil their contractual obligations to The Group. The granting of credit is one of The Group's major sources of income and, as the most significant risk, The Group dedicates considerable resources to its control.

Overview (audited)

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:

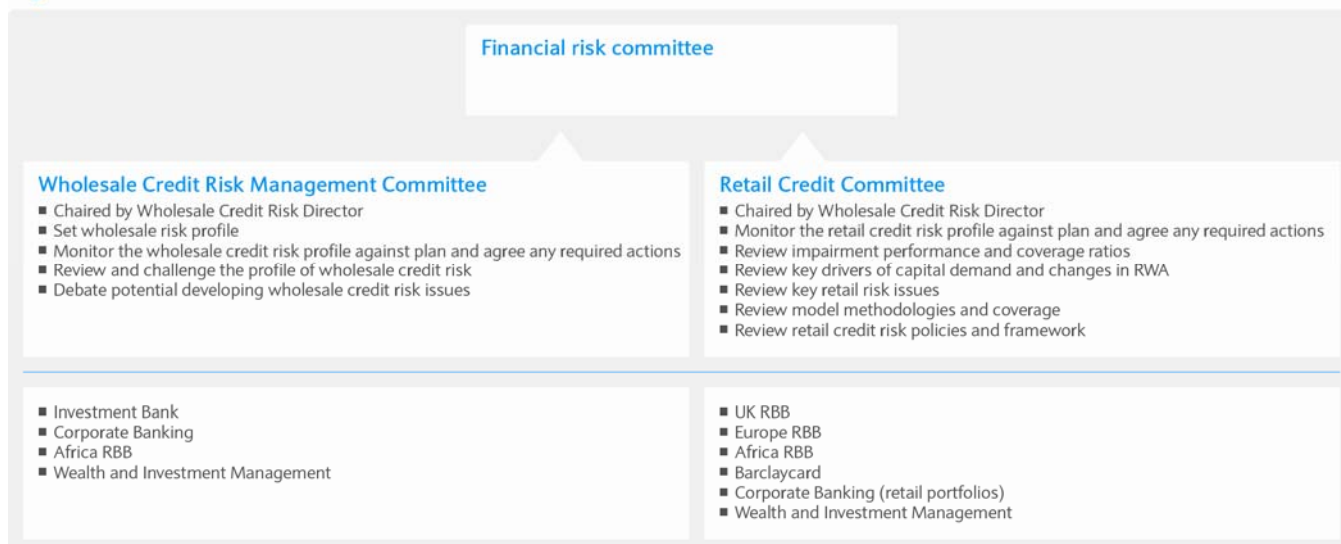
- maintain a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across The Group and within each separate business, from the level of individual facilities up to the total portfolio;
- 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.



Barclays risk review

Risk management

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 smaller in value and can be managed on a homogenous portfolio basis.

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans. The credit risk management teams in each business are accountable to the business risk directors in those businesses who, in turn, report to the CRO and also to the heads of their businesses.

The responsibilities of the credit risk management teams in the businesses include: sanctioning new credit agreements; monitoring risk against limits and other parameters; ensuring all elements of post sanction fulfilment are completed in line with terms of the sanction; maintaining robust systems, 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; and for retail portfolios maintaining robust collections and recovery processes/units.

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 Central Risk. In the wholesale portfolios, credit risk managers are organised in sanctioning teams by geography, industry and/or product.

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. Central Risk also provides technical support, review and validation of credit risk measurement models across The Group.

Barclays risk review

Risk management

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 Barclays can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. Barclays' 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 are engaged in similar activities 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, Barclays constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry (see page 67 for further detail).

Mandate and Scale limits are used to maintain concentrations at appropriate levels. 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 FRC and the BFRC.

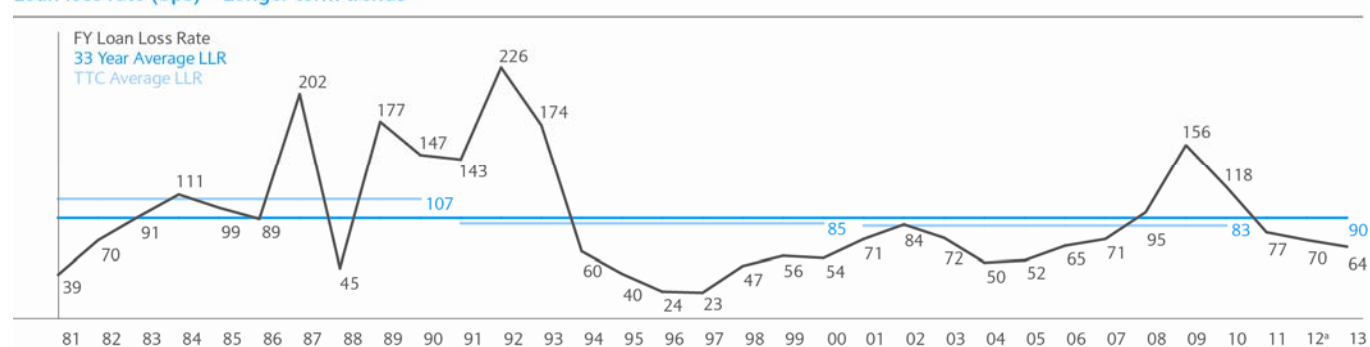
Monitoring performance and asset quality

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 Barclays with a way of consistently monitoring trends in loan portfolio quality at The Group, business and product levels. At Barclays, 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.

Loan loss rate (bps) – Longer term trends



From a recent 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 in 2012-13 and now stands at 64bps.

Barclays risk review

Risk management

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;
- Potential credit risk loans coverage ratio (impairment allowances as a percentage of total CRL and Potential Problem Loan (PPLs) balances); and
- See identifying potential credit risk loans on page 310 for more information on the criteria for this category.

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:

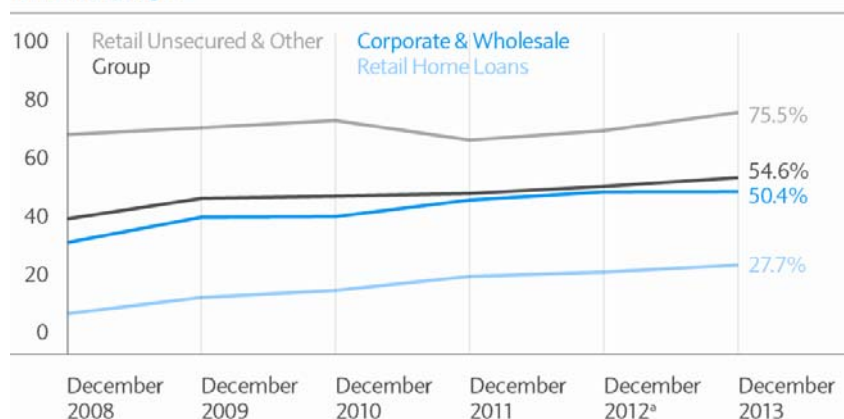
- Secured retail home loans: 5%-25%;
- Credit cards, unsecured and other personal lending products: 65%-80%; and
- Corporate facilities: 30%-50%.

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 following chart and may be found in the analysis of loans and advances and impairment section (page 79).

CRL coverage^a



Note

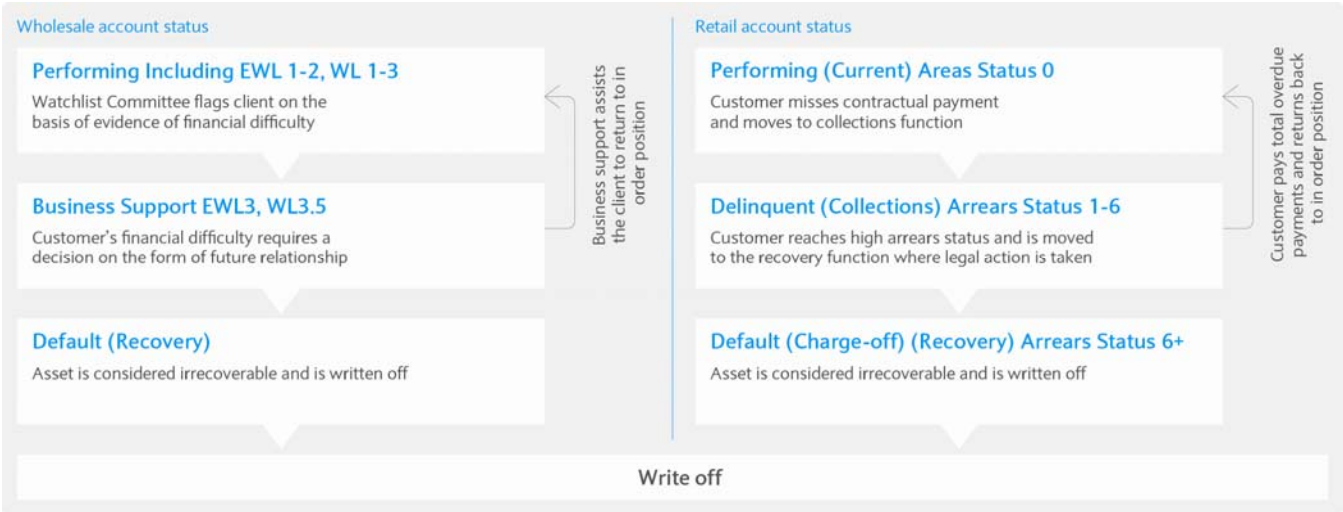
a Restated to reflect the impact of IFRS10, which results in some Exit Quadrant exposures being recorded at fair value in 2012 and 2013.

Barclays risk review

Risk management

Monitoring weaknesses in portfolios

Whilst 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.



Note

a Some Exit Quadrant exposures are not reported as CRLs following the introduction of IFRS10, which accounts for these balances at fair value.

Barclays risk review

Risk management

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. Barclays definitions of default used are:

1. Bank puts the credit obligation on a non-accrued status.
2. Bank makes a charge-off or account specific identified impairment resulting from a significant perceived decline in credit quality.
3. Bank sells the credit obligation at a material credit-related economic loss.
4. 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.
5. Bank triggers a petition for obligor's bankruptcy or similar order.
6. 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.
7. Bank becomes aware of an acceleration of an obligation by a firm.
8. Where the obligor is a bank – revocation of authorisation.
9. Where the obligor is a sovereign – trigger of default definition of an approved external credit assessment institution (i.e. a rating agency).
10. Obligor past due more than 90 days on any material credit obligation to the banking 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 carefully 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 obligors, 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 clients in higher levels of EWL/WL, default, collection or insolvency. Their mandate is to maximise shareholder value ideally via working intensively with the client 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 an obligor'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 from entry into delinquency.

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.

Note

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

Barclays risk review

Risk management

Identifying potential credit risk loans

The Group reports potentially and actually impaired loans as Potential Credit Risk Loans (PCRLs). PCRLs comprise two categories of loans: Potential Problem Loans (PPLs) and Credit Risk Loans (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: comprise 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: comprise 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.

Allowances for impairment and other credit provisions

Barclays 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 Group Credit Risk Director 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. Details of other trigger points can be found above. 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 Barclays' 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 identified

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.

Barclays risk review

Risk management

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 Probability of Default (PDpit) x Loss Given Default (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 risk characteristics when compared to the rest of 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 cashflows 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 2013, key judgements were made on a number of identified cases within Investment Bank, Corporate Banking and Wealth and Investment Management. No material changes were made to the unidentified impairment in 2013.

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, Barclays accounts for the impact of changes in the economic environment and lags resulting from the design of the models to ensure overall impairment adequacy.

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 it takes for an account that is likely to be impaired but not yet identified as such, to 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 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 three months. The average life of the Investment Bank portfolio is estimated to be 18 months, during which time Investment Bank is exposed to losses on the portfolio. However, it is expected that incurred losses would become apparent within 6 months, therefore the Investment Bank use a 6-month emergence period.

Barclays risk review

Risk management

Retail portfolios

For retail portfolios, minimum emergence periods and outcome periods are defined at a product level. Emergence and outcome periods at 31 December 2013 for the main retail products are as shown in the table below:

Minimum emergence periods

Product type	Emergence period (months)	Outcome period (months)
Mortgages	6	12
Credit cards	3	6
Personal loans, overdrafts & 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	3	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.

The emergence period for Credit Cards products has been raised to 3 months to align it with the approach adopted for other retail unsecured retail products. Given the minimum emergence period possible is 1 month, the period was moved to three months based on expert judgement, with a lower emergence period permitted only on a case by case basis where supported by analytical evidence.

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 business credit risk, 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:

1. All arrears (both capital and interest) have been cleared and payments have returned to original contractual payments;
2. For revolving products, a re-age event has occurred, when the customer is returned to an up to date status without having cleared the requisite level of arrears; and
3. 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;
4. 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:
 - (a) No interest rate concessions must have been granted
 - (b) Restructure must remain within original product parameters (original term + extension)
 - (c) 12 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.

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 must also include customers who have suffered recent financial dislocation, i.e. prior forbearance or re-age.

Barclays risk review

Risk management

Recovery units

Recovery units are responsible for exposures where deterioration of the client 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 Bank's exposure through realisation of assets and collateral in cooperation with clients 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 through the bank account 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.

Writing off assets

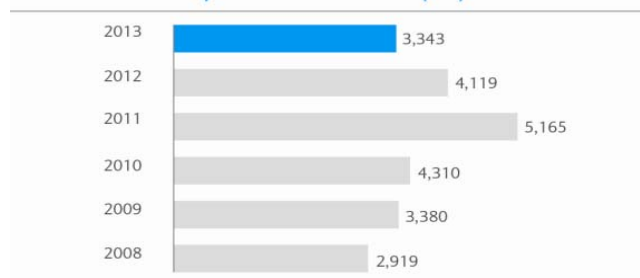
Write-off refers to the point where it is determined that the asset is irrecoverable, it is no longer considered economically viable to try and recover the asset, it is deemed immaterial, or full and final settlement is reached and a shortfall remains. In the event of write-off, the customer balance 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, write-off must occur within 12 months after charge-off if no payment has been received for 12 months. 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 2013, total write-offs of impaired financial assets decreased 19% to £3,343m (2012: £4,119m).

Total write offs of impaired financial assets (£m)



Credit risk mitigation

Barclays 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.

Barclays 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 obligor.

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.

Barclays risk review

Risk management

Netting and set-off

In many jurisdictions in which Barclays operates, credit risk exposures can be reduced by applying netting and set-off. In exposure terms, this credit risk mitigation technique is used mainly in derivative transactions with financial institutions and has the largest overall impact on net exposure to derivative financial instruments compared with other risk mitigation techniques.

For derivative transactions, Barclays will often seek 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 Barclays' 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.

In the majority of its portfolios, Barclays uses the Internal Model Method (IMM) to calculate counterparty credit risk exposures.

Collateral

The Group has the ability to call on collateral in the event of default of the borrower or other 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: Barclays also often seeks to enter into a Credit Support Annex (CSA) with counterparties with which Barclays has master 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 or weekly) to collateralise the mark-to-market exposure of a derivative portfolio;
- Reverse repurchase agreements: collateral typically comprises highly liquid securities which have been legally transferred to Barclays 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 on page 62.

In exposure terms, the main portfolios that Barclays 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, direct debt obligation government (G14+) bonds denominated in the domestic currency of the issuing country, debt issued by supnationals 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.

Barclays risk review

Risk management

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 Retail Credit Risk section on page 62.

Liens over fluctuating assets such as inventory and trade receivables, known as floating charges, over the assets of a borrower are monitored at least 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 mark to market 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 ensure that the current value is not 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 Barclays has a material concentration of property collateral.

Monitoring may be undertaken either a portfolio level (Retail) or at the level of an individual property (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 three 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. This monitoring may be a desktop assessment and need not necessarily include physical assessment of properties. 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 above. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of The Group, the borrower and the borrower's other creditors 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 customer. Barclays does not, as a rule, 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 our 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 loan loss rates incorporate the impact of any decrease in the fair value of collateral held.

Barclays risk review

Risk management

Collateral – regulatory capital benefit

Where regulatory capital is calculated under advanced IRB 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.

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 credit worthiness 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.

For instruments that are deemed to transfer credit risk, in advanced IRB portfolios the protection is generally recognised by using the PD and LGD of the protection provider.

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, customers and counterparties 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.

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, Barclays 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 Barclays, for reasons relating to the actual or perceived financial difficulty of an obligor, grants a concession below current Barclays 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 Barclays in return for concession(s).

Barclays risk review

Risk management

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 Bank;
- Non-enforcement of a material covenant breach impacting the borrower'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 Bank 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 Bank 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 our current terms which involves Barclays granting concessions and receiving risk mitigation/ structural enhancement of benefit to Barclays 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 Bank 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 Bank has decided to reserve its position but does not consider the default to be sufficient to impact the borrower's ability to pay, would not typically be considered forbearance (as the borrower would continue to meet its payment obligations under existing terms).

The Group WL/EWL and Forbearance Policy requires that a permanent record is retained of all individual cases of forbearance, and upon granting forbearance the obligor is placed on WL/EWL. The obligor then remains on WL/EWL and is flagged as being in forbearance for a minimum of 12 months from the date forbearance is applied. Obligors may be removed from WL/EWL status in less than 12 months in exceptional circumstances, e.g. full repayment of facilities or significant restructuring. Obligors placed on WL/EWL status are subject to increased levels of credit risk oversight.

Obligors 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 Barclays the obligor is unlikely to meet its 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 customers 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, Barclays 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 watch list and impairment policies 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.

Barclays risk review

Risk management

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 customers with longer term financial difficulties, term extensions may be offered, which may include interest rate concessions. For customers with longer-term financial difficulties, term extensions may be offered, which may include interest rate concessions and a switch to fully amortising balances for card portfolios.

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 Barclays 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 2013, 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.

Forbearance on The Group's principal portfolios in UK, US, Europe, and South Africa are presented in the Retail Credit risk section of the Risk review. See forbearance programmes on principal cards, overdrafts, unsecured loans, home loans and business lending portfolios on page 161 of the Barclays PLC Annual Report for more details of assets currently in forbearance. 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.

Barclays would not consider a retail loan 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 Barclays 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.

Impairment of loans under forbearance

Loans under forbearance programmes are subject to Group Impairment Policy. In both retail and wholesale portfolios, identified impairment is raised for such accounts, recognising the agreement between the Bank 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 closely monitors the sustainability of loans for which forbearance has been granted.

Wholesale portfolios

In the wholesale portfolios, customers that have been granted forbearance are placed on WL/EWL and therefore subject to increased levels of credit risk oversight. Obligors then remain on WL/EWL 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 customer 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 customer ceases to have any actual or perceived financial stress; or
- A significant restructure takes place which leads to a significant improvement in the credit profile of the customer.

Obligors 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. Customers continuing to benefit from a concession below current market can be removed from EWL / WL and no longer be classified as in forbearance provided they do not meet any of the EWL / WL criteria and can evidence consistent satisfactory performance throughout the minimum 12 month period.

Barclays risk review

Risk management

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 12 months.

For disclosure on The Group's accounting policy with respect to impairment, see Note 7 and the Reporting section.

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 Barclays. 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 12 month period, or more than twice in a five year period.

Barclays considers 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 Re-age in Risk Review section on page 170 of the Barclays PLC 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 roll or repay bullet repayment loans at expiry, and will therefore need refinancing.

From a Wholesale 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 review will also include an evaluation of the 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 Barclays 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) and interest rate sensitivity.

Loans to 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, customers with interest only home loans and Spanish corporate exposure in the Risk Review on pages 172 and 177 of the Barclays PLC Annual Report for more information.

Barclays risk review

Risk management

Derivative exposures

Derivative counterparty credit exposures

The Group buys and sells 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 margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

The Group also buys and sells 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 customers. In many 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 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.

Internal capital for counterparty credit risk is assessed and allocated based on the economic capital for wholesale credit risk calculation. The magnitude of the exposure is determined by considering the current mark to market of the contract, the historic volatility of the underlying asset and the time to maturity. This allows calculation of a Credit Equivalent Exposure (CEE) for such exposures. The total economic capital for a portfolio of such exposures is then calculated in a manner similar to a book of loans.

'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 mark to market loss. When assessing the credit exposure of a wrong-way trade, analysts take into account the correlation between the counterparty and the underlying asset as part of the sanctioning process.

Adjustments to the calculated CEE are considered on a case by case basis. In the case of specific wrong-way risk trades, which are self-referencing or reference other entities within the same counterparty, specific approval by a senior credit officer is required.

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 over the counter (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 Credit Support Annex (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 supnationals 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.

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.

Derivative counterparty credit risk measurement (Credit Value Adjustments)

As Barclays participates in derivative transactions it is exposed to counterparty credit risk, 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 mark-to-market payment flows. Modeling 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, which is replicated by purchasing and selling credit default swaps (CDS) on the counterparty to create a hedge position that mirrors the expected exposure profile for the counterparty.

CVAs for derivative positions are calculated as a function of the expected exposure, which is the average of future hypothetical exposure values (or mark to market) for a single transaction or group of transactions by the same counterparty, and the CDS spread for a given horizon.

Barclays risk review

Risk management

In order to calculate the Expected Exposure, the expected mark to market is calculated using Monte Carlo simulations of risk factors that may affect the valuation of the derivative. These simulations include credit mitigants such as exposure netting, collateral, mandatory break clauses and set-off 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.

Environmental risk

Barclays has a dedicated Environmental Risk Management team which is a part of the central Credit Risk Management function in Group Risk, recognising that environment is a mainstream credit risk issue. Environmental issues are required considerations in credit risk assessment, and environmental risk policies are explicitly referenced in the Credit Facility Sanctioning Standards.

Barclays approach to environmental credit risk management addresses risk under any of three categories:

Direct risk can arise when the Bank takes commercial land as collateral. In many jurisdictions, enforcement of a commercial mortgage by the bank, leading to possession, potentially renders the Bank 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 Bank, 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 Bank's image, through association with clients, their transactions or projects if these are perceived by external stakeholders to be environmentally damaging. Where the Bank is financing infrastructure projects which have potentially adverse environmental impacts The Group's Environmental and Social Impact Assessment (ESIA) policy will apply. This policy identifies the circumstances in which the Bank 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 Group ESIA policy 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 over 75 banks worldwide which have adopted the Equator Principles (see www.equator-principles.com).

Further details on the Barclays approach to environmental risk management can be found at Barclays.com, in the section on Citizenship; the way we do business, 'Managing Social and Environmental Risk in Lending'.

Barclays risk review

Risk management

Asset credit quality

All loans and advances are categorised as either neither past due nor impaired; past due but not impaired; or impaired, which includes restructured loans. For the purposes of the disclosures in the balance sheet credit quality section (page 74) and the analysis of loans and advances and impairment section (page 79):

- a loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.
- the impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.
- loans neither past due nor impaired consist predominantly of wholesale and retail loans that are performing. These loans, although unimpaired, may carry an unidentified impairment.
- loans that are past due but not impaired consist predominantly of wholesale loans that are past due but individually assessed as not being impaired. These loans, although individually assessed as unimpaired, may carry an unidentified impairment provision.
- impaired loans that are individually assessed consist predominantly of wholesale loans that are past due and for which an individual allowance has been raised.
- impaired loans that are collectively assessed consist predominantly of retail loans that are one day or more past due for which a collective allowance is raised. Wholesale loans that are past due, individually assessed as unimpaired, but which carry an unidentified impairment provision, are excluded from this category.

Home loans and credit card receivables that are subject to forbearance in the retail portfolios are included in the collectively assessed impaired loans column in the tables in the Analysis of loans and advances and impairment section (page 151 of the Barclays PLC Annual Report). Included within wholesale loans that are neither past due nor impaired are a portion of loans that have been subject to forbearance or similar strategies as part of The Group's ongoing relationship with clients. The loans will have an internal rating reflective of the level of risk to which The Group is exposed, bearing in mind the circumstances of the forbearance and the overall performance and prospects of the client. Loans on forbearance programmes will typically, but not always, attract a higher risk rating than similar loans which are not. A portion of wholesale loans under forbearance is included in the past due but not impaired column, although not all loans subject to forbearance are necessarily impaired or past due. Where wholesale loans under forbearance have been impaired, these form part of individually assessed impaired loans.

The Group uses the following internal measures to determine credit quality for loans that are performing:

Credit quality description	Retail lending	Wholesale lending	Default grade
	Probability of default	Probability of default	
Strong	0.0-0.60%	0.0-0.05%	1-3
		0.05-0.15%	4-5
		0.15-0.30%	6-8
		0.30-0.60%	9-11
Satisfactory	0.60-10.00%	0.60-2.15%	12-14
		2.15-11.35%	15-19
Higher risk	10.00%+	11.35%+	20-21

For loans that are performing, these descriptions can be summarised as follows:

Strong: there is a very high likelihood of the asset being recovered in full;

Satisfactory: while there is a high likelihood that the asset will be recovered and, therefore, is of no current cause for concern to The Group, the asset may not be collateralised, or may relate to facilities such as unsecured loans and credit card balances; and

Higher risk: there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

Loans that are past due are monitored closely, with impairment allowances raised as appropriate and in line with The Group's impairment policies. These loans are all considered Higher Risk for the purpose of this analysis of credit quality.

Debt securities

For assets held at fair value, the carrying value on the balance sheet will include, among other things, the credit risk of the issuer. Most listed and some unlisted securities are rated by external rating agencies. The Group mainly uses external credit ratings provided by Standard & Poor's or Moody's. Where such ratings are not available or are not current, The Group will use its own internal ratings for the securities.

Barclays risk review

Risk management

Market risk

Introduction to the management of market risk

Barclays' definition of market risk

Market risk is the risk of The Group's earnings or capital being reduced due to:

- The Group being impacted by changes in the level or volatility of positions in its trading books. This includes changes in the interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels ('traded market risk').
- The Group being unable to hedge its banking book balance sheet at prevailing market levels ('non-traded market risk').
- The Group's defined benefit obligations increasing or the value of the assets backing these defined benefit obligations decreasing due to changes in both the level and volatility of prices ('pension risk').

Each of the above has been identified by Barclays' management as key risks underlying the principal risk: market risk.

Traded market risk overview

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, Barclays 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 overview

Barclays 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. Banking businesses, such as RBB or Corporate Banking, engage in internal derivative trades with Treasury to remove this interest rate risk, however, the businesses remain susceptible to market risk from three key sources:

- **Prepayment risk:** Balance run-off may be faster or slower than expected due to economic conditions or customers response to interest rates. This can lead to a mismatch between the anticipated balance of products provided to customers and the hedges executed with Treasury;
- **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; and
- **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, Barclays managed rate deposits are exposed to margin compression. This is because for any further fall in base rate Barclays must absorb an increasing amount of the rate move in its margin.

Barclays banking operations also generate non-traded market risk through the sensitivity of balance sheet items to movements in market levels, primarily foreign exchange and interest rates.

Pension risk overview

Barclays 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. Barclays monitors the market risks arising from its defined benefit pension schemes, and works with the trustees to address shortfalls. In these circumstances, Barclays 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.

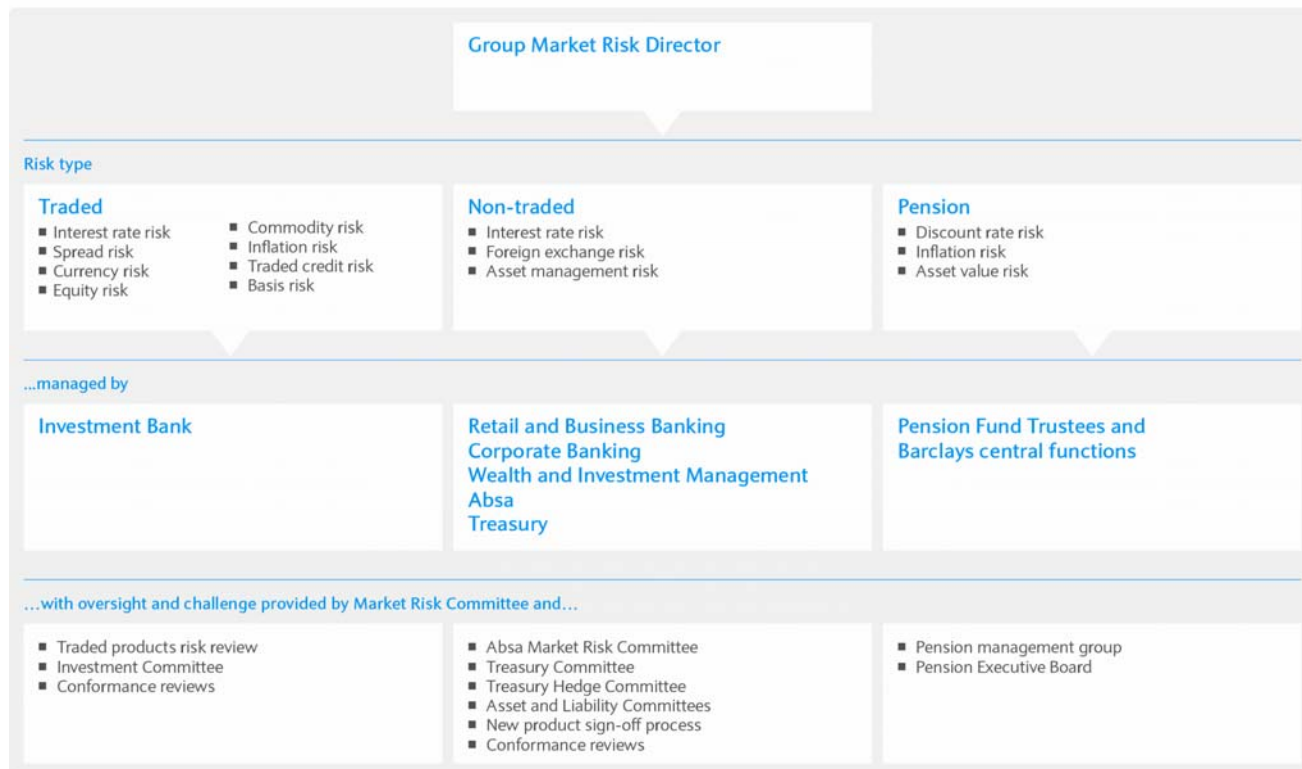
Organisation and structure

Traded risk in the businesses resides primarily in Investment Bank, while non-traded market risk resides mainly in Retail and Business Banking, Corporate Banking, Wealth and Investment Management and Treasury. Pension risk is monitored centrally with the cost borne across businesses.

Barclays risk review

Risk management

Overview of the business market risk control structure



Roles and responsibilities

The objectives of Barclays market risk management is 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 Investment Bank including Absa CIBW; and
- minimise non-traded market risk.

To ensure the above objectives are met, Barclays has a well established governance structure in place, whereby the risks are identified, assessed, controlled and reported on throughout the organisation.

The Board Financial Risk Committee (BFRC) reviews and approves market risk appetite for The Group. The Group Market Risk Director is responsible for the Barclays Market Risk Control Framework and, under delegated authority from The Group Chief Risk Officer, sets a limit framework within the context of the approved market risk appetite.

The Market Risk Committee approves and makes recommendations concerning the market risk profile across Barclays Group. This includes approving the Barclays Market Risk Control Framework and Group Market Risk Policies; reviewing arising market or regulatory issues, limits and utilisation; and proposing risk appetite levels to the Board. The Committee is chaired by The Group Market Risk Director and attendees include The Group Chief Risk Officer, respective business aligned risk managers and senior managers from Group Market Risk as well as Internal Audit.

The head of each business is accountable for all market risks associated with its activities. The head of the market risk team covering each business is responsible for implementing the risk control framework for market risk. The control frameworks for traded, non-traded and pensions risk are all governed by the Market Risk Control Framework, which sets out how market risk should be identified, measured, controlled, reported and reviewed. The Framework also outlines and references Group Market Risk policies.

Market risk oversight and challenge is provided by business committees, Group committees, including the Market Risk Committee and Group Market Risk. The chart above gives an overview of the business control structure.

Barclays risk review

Risk management

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 risk appetite. The Group runs an annual Group-wide stress testing exercise which aims to simulate the dynamics of exposures across Barclays Group and cover all risk factors. The exercise is also designed to measure the impact to Barclays' fundamental business plan, and is used to manage the wider Group's strategy.

See page 295 for more detail on the role of risk in the setting of strategy.

Market risk culture

The Investment Bank risk function, which includes the market risk function, reports directly to The Group Chief Risk Officer, in line with the Transform initiative. Market risk managers are independent from the businesses they serve which embeds a risk culture with strong adherence to limits that support Group wide risk appetite. See page 286 for more detail on Barclays' risk culture.

Management of traded market risk

Barclays' 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 structured risk management solutions to clients at Barclays Investment Bank only. The Investment Bank also manages the Interest Rate risks for other businesses through The Group Treasury function. Positions will contribute both to market risk limits and regulatory capital if relevant.

Traded market risk measurement – management view

Market risk management measures

Barclays uses a range of complementary approaches to measure traded market risk which aim to capture the level of losses that the Investment 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 extreme market moves or scenarios to key liquid risk factors.
Secondary stress tests	Modelled losses to unfavourable market movements to illiquid market risk exposures.
Combined scenario stresses	Multi asset scenario analysis of extreme, but plausible events that may impact the market risk exposures of the Investment Bank.

Barclays' 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 Barclays deems as material market risk exposures which may have a detrimental impact on the performance of the investment bank. The scope used in Regulatory VaR (see page 328) applies only to trading book positions as defined by the PRA which is a narrower scope.

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.
- Management VaR differs from the Regulatory VaR used for capital purposes.
- Backtesting performed to ensure model is fit for purpose.

Barclays risk review

Risk management

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, the Investment Bank uses a historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level for all trading books and some banking books. VaR is split by risk factor as summarised below:

Risk factor	Description
Interest rate	Changes in the level of interest rates can impact prices of interest rate sensitive assets, such as bonds and derivative instruments, for example, Interest Rate Swaps.
Spread risk	Spread Risk (difference between bond yields and swap rates) arises when the business has positions in both bonds and derivative instruments; both assets may trade at different levels but are fundamentally exposed to similar risk.
Foreign exchange risk	The impact of changes in foreign exchange rates and volatilities. Investment Bank may be exposed to adverse or favourable movements in FX prices (e.g. movement of FX trade after entering into a forward rate FX contract).
Equity risk	Market risk may arise due to changes in equity prices, volatilities and dividend yields, for example, the Investment Bank is exposed to this risk as part of its market making activities, syndication or underwriting Initial Public Offerings.
Commodity risk	Commodity risk arises primarily from the Investment Bank's commodities businesses, who provide hedging solutions to clients and access to financial investors.
Inflation risk	The impact of changes in inflation rates and volatilities on cash instruments and derivatives. This arises as part of market making activities, whereby Investment Bank may be exposed to changes in inflation rates, for example, market making syndications for inflation linked securities.
Credit risk	The market risk that arises from the uncertainty of credit quality impacting prices of assets, for example, positions such as Corporate Bonds, Securitised products and derivative instruments, for example, Credit Default Swaps provide market risk exposure.
Basis risk	The impact of changes in interest rate tenor basis (e.g. the basis between swaps vs. 3M LIBOR and swaps. 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 lookback 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 backtesting process. Backtesting checks instances where actual losses exceed the predicted potential loss estimated by the VaR model. If the number of instances is too high, where actual losses exceed the predicted potential loss estimated by the VaR model, this could indicate limitations with the VaR calculation, for example, the calculation is not capturing certain market risk factors.

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'). RNIVs can be of two varieties:

- Non VaR-type RNIVs: Represents a risk which would not be well captured by any VaR model either because it represents an event not historically observed (e.g. currency peg break) or a market risk factor which is not seen to move frequently (e.g., correlation).
- VaR-type RNIVs: Represents risks that are not captured in VaR, mainly because of infrastructure limitations or methodology limitations.

Risk managers estimate RNIVs on a regular basis to improve the accuracy of the VaR capture model.

When reviewing VaR estimates, the following considerations should be 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.
- VaR does not indicate the potential loss beyond the VaR confidence level.

Limits are applied at the total Investment Bank 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 94 for a review of Management VaR in 2013.

Barclays risk review

Risk management

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 geographies, products and sectors;
- Emerging Markets – stresses across specific countries including corporate and sovereign credit, interest rates and currency shocks;
- 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 a few 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 publish results to senior managers to highlight concentrations and the level of exposures. Primary stress loss limits are applied across the Investment Bank 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 illiquid market risks that cannot be hedged or reduced within the time period covered in primary stress tests. Therefore, the extended holding period under stress may compound the estimated losses under a stressed environment which is a more conservative assumption. 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.

Combined 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.

The combined scenario stresses apply simultaneous shocks to several 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 Investment Banking trading exposures. Combined scenarios are a useful tool in identifying concentrations of exposures and highlighting areas that may provide some diversification.

The estimated impact on market risk exposures are calculated and reported by the market risk management function on a weekly basis. The stress scenario and the calibration on the shocks are also reviewed by market risk managers periodically for its relevance considering any market environment.

Scenarios such as a global recession, deterioration in the availability of liquidity and contagion effects of a slowdown in one of the major economies are examples of combined 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 95 for a review of combined scenario stresses in 2013.

Barclays risk review

Risk management

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 requirement, in line with the regulatory requirements set out in the Capital Requirements Directive ('CRD III') and the PRA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). 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.

Regulatory measurements are not used for market risk management purposes due to the scope and model assumptions.

Regulatory measures for traded market risk

There are a number of regulatory measures which Barclays 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 10 day holding period.
Stressed Value at Risk (SVaR)	An estimate of the potential loss arising from a 12 month period of significant financial stress over a 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.
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.
- Regulatory VaR differs from the management approach

VaR Variable	Regulatory	Management
Confidence interval	99%	95%
Scope	As approved by the Regulator (PRA)	Barclays' 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	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 325), with the key differences listed above.

The model includes RNIVs, as described on page 326.

Stressed Value at Risk (SVaR)

- Estimates the potential loss arising from unfavourable market movements in a stressed environment.
- Identical to Regulatory VaR, but calibrated over a one year stressed period.
- Regulatory capital is allocated to individual businesses, but not actively used by management to set limits on traded market risk.

As part of CRD III, Barclays is required to compute a market risk capital requirement based on a 10 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 Barclays, with the exception that the SVaR model must be calibrated to a one-year period of significant financial stress ('the SVaR period'). Barclays 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.

Barclays risk review

Risk management

SVaR cannot be meaningfully backtested and is not sensitive to current market conditions and consequently, it is more difficult to use SVaR as a direct risk management tool as compared to VaR. 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.

As part of CRD3, Barclays was required to introduce IRC to capture 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.

Barclays 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 Internal Ratings Based approach to measuring credit risk capital, with a fixed correlation between sovereign names.

Barclays 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.

Barclays IRC model assumes that ratings transitions, defaults and any spread increases occur on an instantaneous basis. Consequently there is no need to model a reduction in duration or roll off of positions over the one year horizon.

All Price Risk (APR)

- Captures all market risks affecting the correlation trading portfolio.

APR covers the correlation trading portfolio and is intended to capture all risk factors relevant to corporate nth-to-default (on a basket of referenced names) and tranching 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 credit correlation 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
- Hedge slippage – portfolio rebalancing assumption

Barclays 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.

Regulatory traded risk measurements summary

Barclays maintains a Trading Book Policy Statement ('TBPS') 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.

Currently all trading books must be managed by either Investment Bank or separately by Absa CIBW. Businesses with trading books are required to document their implementation of trading book standards which define how the Barclays-wide TBPS requirements 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 by the PRA in BIPRU. If any of the criteria specified in the TBPS are not met for a position, then that position must be allocated to the banking book.

Barclays risk review

Risk management

Most of Barclays market risk regulatory models are assigned the highest model materiality rating of 'A*'. Consequently, the Regulatory VaR model is subject to annual re-approval at the Executive Models Committee ('EMC'), which is chaired by The Group Chief Risk Officer and The Group Chief Financial Officer. EMC considers evidence of model suitability provided by the model owner, as well as an independent validation conducted by The Group Centre Independent Validation Unit. The following table summarises the models used for market risk regulatory purposes and the applicable regulatory thresholds.

Component modelled	Number of significant models and size of associated portfolio (RWAs)	Model description and methodology	Applicable regulatory thresholds
Regulatory VaR	1 model; £5.0bn	Equally-weighted historical simulation of potential daily P&L arising from market moves	Regulatory VaR is computed with 10 day holding period and 99% confidence level
SVaR	1 model; £9.9bn	Same methodology as used for VaR model	Regulatory SVaR is computed with 10 day holding period and 99% confidence level
IRC	1 model; £4.4bn	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; £1.0bn	Monte Carlo simulation of P&L arising from ratings migrations and defaults and market-driven movements in spreads and correlations	APR is computed with one year holding period and 99.9% confidence level. As required in CRD III, the APR charge is subject to a floor set with reference to standard rules charge

See page 327 for a review of regulatory measures in 2013.

Regulatory Backtesting

Backtesting is the method by which Barclays 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. Barclays' backtesting 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. If exceptions occur regularly (a 99% confidence interval indicates that one exception will occur in 100 days), Barclays' procedures could be underestimating VaR.

Backtesting is performed at a legal entity level and at sub-portfolio levels on Barclays' regulatory VaR model. Regulatory backtesting compares Regulatory VaR at 99% confidence level (1 day holding period equivalent) to a clean and hypothetical P&L as defined in BIPRU 7.10. 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 backtesting 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 backtesting exceptions in a 12-month period. Backtesting counts the number of days when a loss (as defined by the PRA) exceeds the corresponding VaR estimate, measured at the 99% regulatory confidence level. For the Investment Bank's VaR model, green model status was maintained for 2013.

Backtesting is also performed on management VaR to ensure it remains reasonable and fit for purpose.

Barclays risk review

Risk management

The table below shows the VaR backtesting exceptions in 2013. A backtesting exception is generated when a loss is greater than the VaR for a given day.

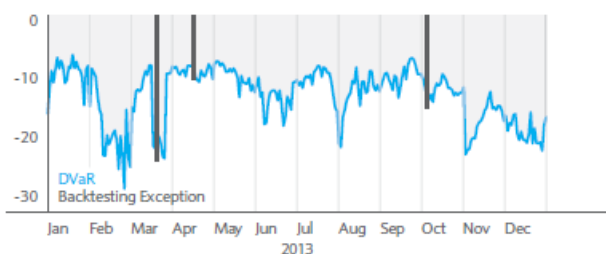
Regulatory portfolios	Total exceptions	Status
Equities	3	Green
Commodities	3	Green
Foreign Exchange	3	Green
Credit Correlation	2	Green
Fixed Income Rates	2	Green
Emerging Markets (excluding credit)	2	Green
Credit Support Annex Aware Discounting Valuation	1	Green
Treasury	0	Green
Client Capital Management	0	Green
Fixed Income Credit	0	Green
Emerging Markets Credit	0	Green
Counterparty Risk Trading Single Name Trading	0	Green

The charts below show VaR for Barclays' regulatory portfolios where at least one exception has occurred during 2013. The dark blue lines indicate losses on the small number of days on which they exceeded the VaR amount.

Barclays risk review

Risk management

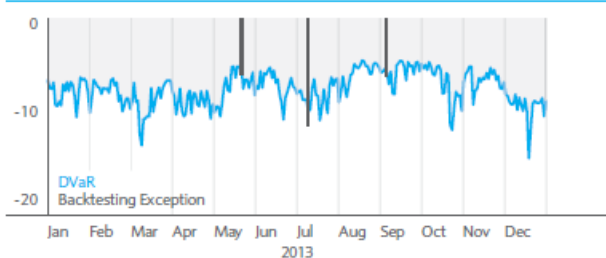
Equities (£m)



Commodities (£m)



Foreign Exchange (£m)



Credit Correlation (£m)



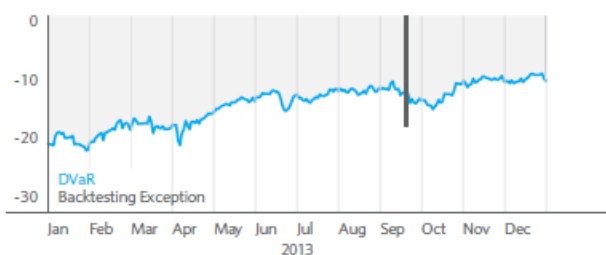
Fixed Income Rates (£m)



Emerging Markets (excluding credit) (£m)



Credit Support Annex Aware Discounting Valuation (£m)



Typical drivers of the exceptions shown above are as follow:

- Exceptional market moves, outside the confidence level at which the model operates, for example, the market volatility caused by the Federal Reserve tapering announcement.
- Risks which are not captured in VaR (for more information on RNIVs see page 326).

Exceptions are reported to internal management and regulators on a regular basis and exceptions are investigated to ensure the model performs as expected.

Traded Market Risk Control

The metrics that Barclays use to measure market risk are controlled through the use of appropriate limit framework. Limits are set at the total Investment Bank portfolio level, risk factor level, for example, interest rate risk, and at business level, for example, Emerging Markets. Stress limits and many book limits, such as foreign exchange and interest rate sensitivity limits, are also used to control risk appetite.

The BFRM ratified firm wide limits are termed A-level limits for total management VaR, risk factor VaR, primary stress and secondary stresses. These are then cascaded down by risk managers in order to meet the firm wide risk appetite.

Barclays risk review

Risk management

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 function in the Investment Bank with oversight provided by Group Market Risk.

Throughout 2013, Group Market Risk continued its ongoing programme of conformance reviews on the Investment Bank's market risk management practices. These reviews are intended to verify the business's conformance with Barclays Market Risk Control Framework and best practices.

Traded market risk reporting

Investment Bank market risk managers produce a number of detailed and summary market risk reports daily, weekly, fortnightly and monthly for business and risk managers. These are sent to Group Market Risk for review and a risk summary is presented at the Market Risk Committee and the Investment Bank's Traded Positions Risk Review. 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 current yield curve 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 practise 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 trades to hedge against non-traded market risk. The metric provides a measure of how interest rate risk may impact The Groups Profit & Loss, 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 195 of the Barclays PLC Annual Report for a review of AEaR in 2013.

Economic Value of Equity (EVE)

Economic Value of Equity (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, including the liquidity buffer and trades to hedge against non-traded market risk 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 (for recruitment, prepayment and residual risk)

Economic Capital (EC) consistent models are used to measure unexpected losses to a 99.98% confidence interval over a 1 year period which reflects the level of confidence (consistent with the Bank's target AA rating). Within non-traded risk, this measure aims to capture recruitment risk, prepayment risk and residual risk for banking book products. EC metrics typically measure variations in economic value from specific sources of

Barclays risk review

Risk management

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.

As part of The Group's risk appetite and limit framework, limits are set by product and portfolio for the three EC categories across each business unit. Each business unit, in line with Treasury, is tasked with managing the risk to within the levels that in practise involves ensuring any required pre or post hedging takes place in a timely fashion to minimise recruitment and residual risk.

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 195 for a review of EC in 2013.

Value at Risk (VaR)

Value at Risk (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 Investment Bank 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 Value at Risk is used to measure residual interest and foreign exchange risks within certain banking book portfolios, following a methodology and approach consistent with that of the trading book.

Quarterly Scaled Value at Risk 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 a constant of 8.1. The five year historical period is considered to be more reflective of the AFS Banking Book portfolio, i.e. less reactive to current market conditions whilst still capturing the stress period of 2008 and 2009.

Stress Testing

Stress losses are calculated for liquidity buffer portfolio, but not subject to controlled limits.

All Non-traded Market Risk positions are subject to the Banks annual stress testing exercise where scenarios based on economic parameters are used to determine the potential impact of the positions on P&L 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 for AEaR, EVE, EC and VaR are agreed by The Group Market Risk Committee. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

The interest rate risk for balances with no defined maturity date and an interest rate that is not linked to the base rate is managed by Group Treasury. A series of continuous rolling hedges are used to mitigate the interest rate risk in the banking book.

Non-traded Market risk Reporting

Barclays' 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 Market Risk Committee.

Asset Management Structural Risk

Asset management structural risk arises where the fee and commission income earned by asset management products is affected by a change in market levels, primarily through the link between income and the value of assets under management. Asset management structural risk mainly resides in Wealth and Investment Management, where the risk is incorporated into the medium term plan and group wide stress test.

Asset management structural risk is subject to Group policy, with limits set and is reported to the Market Risk Committee.

Asset management structural risk is measured using AEaR considering a 30% fall in equity markets and 200bps increase in yields. Group policy is for businesses to monitor and regularly assess potential hedging strategies.

Barclays risk review

Risk management

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, risk and positions are reported monthly to the Market Risk Committee (MRC) 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:

- At least annual review of all Pension Funds shortfalls;
- Detailed review of liability driven data;
- Ensure a continuous and detailed interaction exists between Group Market Risk and the pension asset manager;
- To conduct, where necessary, any deep dives to ensure a consistent view of the risk positions of the fund.

Pension risk measurements

The following metrics are used to describe pension risk:

- Asset/Liability mismatch under IAS19, Funding and Solvency Rules;
- Asset VaR and liability VaR;
- 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. Whilst the asset portfolio is sensitive to the volatility to any asset class the pension asset manager invests in, the liabilities are mainly exposed to inflation, and interest rates and corporate credit spreads which are the main components of the discount rate.

Operational Risk Management Overview

Barclays risk review

Risk management

Operational Risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. During 2013 the Board Conduct, Reputation and Operational Risk Committee was established and met to consider the impacts that operational risk may have on The Group.

Overview

The management of operational risk has two key objectives:

1. To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
2. To improve the effective management of The Group and strengthen its brand and external reputation.

Barclays 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 under Basel 2, which commenced in January 2008. The majority of The Group calculates regulatory capital requirements using AMA (93% of capital requirements), however, in specific areas we apply the Basic Indicator Approach (7%). Barclays 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

Barclays 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. Barclays has an overarching framework that sets out Barclays approach to internal governance ('the Barclays Guide'). The Barclays 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 Enterprise Risk Management Framework (ERMF). The purpose of the ERMF 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.

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Operational Risk is one of six Principal Risks in the EMRF and 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 Barclays 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;
- **Product:** Inadequate design, assessment and testing of products/ services;
- **Regulatory:** Failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry;
- **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.

These risks may result in financial and/or non-financial impacts including legal/regulatory breaches or reputational damage. For more information on Legal, Regulatory and Taxation risks please see pages 54 to 60.

The Operational Risk Framework comprises a number of elements which allow Barclays to manage and measure its Operational Risk profile and to calculate the amount of Operational Risk capital that Barclays 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.

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. Operational risk partners are widely distributed throughout The Group and support these areas, assisting line managers in understanding and challenging the effectiveness of management of risks that they own.

The Operational Risk Director (or equivalent) for each business is responsible for ensuring the implementation of and compliance with Group Operational Risk policies.

The Group Operational Risk Director 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 in Barclays. The outputs of the OR&CC are presented to the Board Conduct, Reputation and Operational Risk Committee (BCRORC).

In addition, specific operational risk committees or governance and control committees at the business level, monitor the risk and control environment. The OR&CC receives reports from these committees and considers Group-significant control issues and their remediation. In addition the OR&CC presents control issues to the Board Audit Committee (BAC).

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 to their business objectives and the effectiveness of key controls, control issues of Group-level significance, operational risk events and a review of scenarios and capital. Specific reports are prepared on a regular basis for OR&CC, BCRORC and BAC.

The Internal Audit function provides further independent review and challenge of The Group's operational risk management controls, processes and systems and reports to the Board and senior management.

Barclays risk review

Risk management

Operational risk management

The Barclays Operational Risk framework is a key component of the Enterprise Risk Management Framework 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 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

Barclays 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 Barclays. 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, Barclays has actually, or could have, made a loss. The definition includes situations in which Barclays 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.

Barclays 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. Barclays uses this external loss information to support and inform risk identification, assessment and measurement.

Key indicators

Key Indicators (KIs) are metrics which allow Barclays to monitor its operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business. KIs 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

Barclays 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 Board Conduct, Reputation and Operational Risk Committee considers and recommends to the Board for approval, via the Enterprise Wide Risk Committee, The Group's risk appetite statement for Operational Risk based on performance in the current year and the projections for financial volatility the following year.

Reporting

The ongoing monitoring and reporting of operational risk is a key component of the Barclays 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 Operational Risk & Control Committee and the Board at the Board Conduct, Reputation and Operational Risk Committee.

Barclays risk review

Risk management

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 is performed by Key Risk Officers, taking into account 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;
- the potential financial and non-financial impacts (eg reputational damage);
- the 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 (eg 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.

Operational risk measurement

Barclays assesses its operational risk capital requirements using an Advanced Measurement Approach (AMA). 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. Barclays 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) in each business and function. 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 Scenarios), as well as loss data from the Operational RiskData eXchange (ORX).

The capital calculation also takes into account the possibility of correlations between operational risk losses occurring in a year (between risks within businesses and functions and between businesses and functions).

In certain joint ventures and associates, Barclays may not be able to apply the AMA and so uses the Basic Indicator Approach (BIA) to calculate operational risk capital. With the BIA, Barclays is required to hold a certain percentage, currently 15%, of average gross income in capital. Areas where the BIA is applied are: the Africa RBB businesses, including Barclays Bank Mozambique and National Bank of Commerce (Tanzania); Barclays Bank PLC Pakistan; the new to bank business activities acquired from Lehman Brothers; and 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.

Barclays risk review

Risk management

Liquidity risk management

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 maintain liquidity resources that are sufficient in amount and quality and a funding profile, which is appropriate to maintain market confidence in The Group's name and meet the liquidity risk appetite as expressed by the Board. 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 subcommittees:

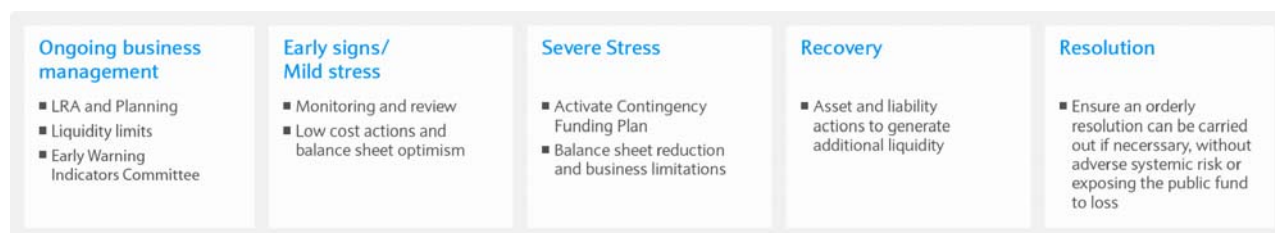
- The Balance Sheet Management Committee – provides a coordinated forum to oversee the management and governance of Balance Sheet Management including behavioural mismatch, structural risk, and transfer pricing;
- The Investment Advisory Group supervises the investment of a portion of The Group's liquidity pool in longer dated liquid assets. The Investment Advisory Group approves a detailed allocation framework across assets and tenors, and reviews the performance and risks associated with these holdings. The holdings are subject to limits set by the Board Financial Risk Committee and by the independent Group market and credit risk functions; and
- The Funding and Liquidity Risk Committee, a sub-committee of the Balance Sheet Management Committee, is responsible for the review, challenge and recommendation of the Liquidity Framework to the Treasury Committee.

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 can not 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.



Barclays risk review

Risk management

Ongoing business management

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 tests. This involves comparing the liquidity pool with anticipated stressed net contractual and contingent outflows for each of three stress scenarios.

The LRA is reviewed on a continuous basis and is subject to formal Board approval at least annually. The Group runs three primary liquidity stress scenarios, aligned to the PRA's prescribed stresses:

- 90 day market-wide stress event;
- 30 day Barclays-specific stress event; and
- 30 day combined market-wide and Barclays-specific stress event.

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

Money market framework	FX Cashflow 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 can lead to invocation of 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	Level of debt buybacks	Rising funding costs
Widening CDS spreads	Change in maturity profile	Repo haircut widening

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Risk management

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 provides a communication plan and includes management actions to respond to liquidity stresses of varying severity. This could include monetising the liquidity pool, slowing the extension of credit and increasing the tenor of funding.

The Group continues to work with the authorities on recovery and resolution planning (RRP). The Group made its first formal RRP submissions to the UK and US regulators in mid-2012 and has since continued to work with the authorities to identify and address any impediments to resolvability.

Barclays also maintains a Group Recovery Plan, which details potential actions in the event of a severe stress including securitising or selling assets, disposals, divestment and capital raising.

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Risk management

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;
- Support its growth and strategic options.

Capital Management is integral to The Group's approach to financial stability and sustainability management and is therefore embedded in the way our Businesses and legal entities operate. Our Capital Management strategy is driven by the strategic aims of The Group and the risk appetite set by the Board.

Our 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
- 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

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

- 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 and leverage ratios aligned with rating agency expectations

Our approach to capital risk management

We adopt a forward-looking, risk based approach to Capital Risk Management. 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.

Capital Planning

Capital forecasts are managed on a top-down and bottom-up analysis through both short-term (monthly for year 1) 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 approved risk profile and business needs, including our Transform financial commitments. As a result, The Group holds a diversified pool of capital resources that provides strong loss absorbing capacity and optimised returns. Capital planning also includes managing capital against leverage targets. These requirements are being developed by the Basel Committee and by national regulators. The Group is required to meet the PRA's leverage requirements calculated on a PRA adjusted CET1 capital base plus qualifying Additional Tier 1 capital using CRD IV leverage exposure. Barclays' capital plans are continually monitored against relevant internal target capital ratios to ensure they remain appropriate, and consider risks to the plan including possible future regulatory changes. 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 Capital Committee, as required.

Target Ratios

The Group's capital plan and target ratios are set in consideration of CRD IV, and draft Recovery and Resolution Directive (RRD) requirements. The target capital structure expected to be achieved during the course of 2015 in consideration of these requirements and the Transform commitments anticipate a target:

- Fully loaded CRD IV CET1 ratio of 10.5% comprising of an expected 4.5% regulatory minimum CET1 ratio requirement leading to a 9.0% regulatory target CET1 ratio including Conservation and Global Systemic buffers (but excluding Pillar 2A and counter-cyclical buffer) and a 1.5% CET1 'internal management buffer';
- 1.5% Additional Tier 1 layer (excluding Pillar 2A); and
- 5.0% Tier 2 debt capital to meet a internal target 17% total capital ratio.

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In addition to Barclays' end state capital structure, target ratios have also been set in respect of the PRA's leverage ratio expectation of 3.0% applicable from June 2014.

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.

Risk Identification

Capital demand is assessed and quantified for credit, market, operational, interest rate risk on the banking book, pension obligation risk and securitisation risks, in line with the PRA's regulatory requirements.

Treasury works closely with Group 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. We monitor capital risks against firm-specific and macroeconomic early warning indicators and report to Treasury Committee, associated with clear escalation channels to senior management.

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 our stress tests and assess the effectiveness of our mitigations strategies.

Group also undertakes stress tests prescribed by the PRA and EBA. 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 we identify the actions 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 our capital resources in the event that stress events are more extreme than anticipated. In addition, the strong regulatory focus on resolvability has continued in 2013, 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 (a Citizenship commitment made in May 2012).

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.

Governance

Our Group and legal entity capital plans are underpinned by the Capital Management Framework, which includes our capital management policies and practices approved by the Capital Committee and implemented consistently and aimed at delivering on our objectives. Group Treasury Committee and the Board approve The Group capital plan, stress tests and Recovery Plan. The Group 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 Financial 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, amongst other things.

Barclays risk review

Risk management

Resources

Global teams operate in accordance with The Group's policies and procedures, having direct access to local regulators and businesses in order to support individual capital management at a legal entity level.

Senior Management awareness and transparency

Capital ratios, early warning indicators and movements in capital demand and supply are reported to Group Treasury Committee monthly.

Capital management information is readily available at all times to support the Executive Managements 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.

Pillar 3 disclosures are approved by the Board and publicly available as a separate document in line with the Basel 3 and PRA requirements.

Ongoing Capital Management Risks

Capital ratio sensitivity to foreign exchange rate movements

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 risk weighted assets. 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 CET 1, 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 Sterling upon consolidation creating CET1 capital resources sensitive to foreign currency movements. Changes in the Sterling 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 CE1 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 ABSA in South Africa.