Barclays Bank UK PLC
Annual Report

31 December 2018

Content

Strategic Report
Performance review

The Strategic report was approved by the Board of Directors on 20 February 2019 and signed on their behalf by the Chairman.

Overview
Barclays Bank UK PLC was established to meet the regulatory ring-fencing requirements in accordance with the Financial Services (Banking Reform) Act 2013 and related legislation. The set-up of the ring-fenced bank involved the transfer to Barclays Bank UK PLC of employees, businesses and various legal entities connected with the UK banking business. Following the stand-up of the ring-fenced bank, consolidated statutory financial statements have been produced for Barclays Bank UK Group for the first time.

In September 2017, c.25,000 colleagues were legally transferred to Barclays Bank UK PLC and subsequently seconded back to Barclays Bank PLC until 1 April 2018, the date of the stand-up of the ring-fenced bank. The majority of entity and business transfers comprising 24 million customers and clients, combined with £254bn of assets, took place in 2018.

The UK banking business, largely comprising of Personal Banking, Barclaycard Consumer UK and Business Banking, was transferred from Barclays Bank PLC to Barclays Bank UK PLC under the single ring-fencing transfer scheme.

The total net assets transferred to Barclays Bank UK PLC were £16.2bn. Net assets of £13.0bn were transferred in exchange for three ordinary shares issued by Barclays Bank UK PLC and the remaining assets were transferred for no consideration. As a result of the transfer the share capital, reserves and other equity instruments of Barclays Bank UK PLC increased by £16.2bn.

The legal entity Barclays Bank UK PLC is the wholly-owned ring-fenced bank of Barclays PLC. Barclays UK refers to businesses of Barclays Bank UK PLC and its subsidiaries, comprised largely of Personal Banking, Barclaycard Consumer UK and Business Banking.

Strategy
Our strategy is centred on building long term, meaningful relationships with our customers. This is achieved through colleagues, empowered by technology, passionate about the customer, delivering perfect and personalised experiences to help customers move forward with confidence, every day.

The Barclays PLC Group purpose is Creating Opportunities to Rise. In Barclays Bank UK Group we express this as #letsgoforward – helping people move forward and do the things they want to do, with confidence, every day.

Business Model
Barclays Bank UK PLC's ring-fenced UK bank business model offers products and services designed for UK retail and business customers, and provides Barclays PLC's shareholders a mix of revenue streams that benefit from different stages of the economic cycle, and wider financial and non-financial value for our stakeholders.

Our Personal Banking business includes Community and Premier Banking, as well as Savings, Investments & Wealth Management. Barclaycard Consumer UK is a leading credit card provider, offering flexible borrowing and payment solutions. Business Banking serves a spectrum of clients, from high growth start-ups to small and medium-sized enterprises (SMEs) who need specialist advice, products and services.

Customers and clients	Products and Services	Value Creation	Contribution to the Barclays Group
▪ Individuals ▪ SMEs	▪ Personal banking services ▪ Credit cards and transactional lending ▪ Mortgages and secured lending ▪ Investment products and services ▪ Business banking solutions	▪ To our customers and clients - Building meaningful relationships to provide relevant and personalised financial solutions ▪ To society - Helping communities move forward ▪ To Barclays Group - Ring-fenced UK bank, providing sustainable returns and prudent balance growth	▪ Income: £5,606m ▪ PBT: £1,548m

Market and operating environment
The current political and economic environment poses a number of challenges through the impact on our customers of continuing uncertainty, modest economic growth and volatile exchange rates, while ongoing low interest rates constrain overall profitability. Against this backdrop, competition, customer behaviour and regulatory expectations continue to evolve rapidly, requiring a high degree of business change. Barclays Bank UK Group, however, continues to deliver solid financial performance, with profit before tax of £1,548m. This has been achieved through the delivery of customer-centric solutions and franchise-led deposit growth, matched by low risk, high quality secured asset growth while maintaining a stable net interest margin.

Risks to the operating model
The uncertainty around Brexit has been a challenge throughout 2018 and remains so, impacting both customer confidence and the market environment. We closely monitor the environment in which we operate and key indicators within our business, while proactively planning for

numerous potential outcomes, in order to minimise the risks associated with the UK's withdrawal from the European Union. We remain conservative in our outlook, supported by our strong risk management framework and oversight.

The threats of organised crime and cyber-attacks remain key risks to our operating model and we invest to ensure the operational resilience and reliability of our technological infrastructure, while simplifying our technological estate in order to remain agile and drive technological advancement for the benefit of our customers.

We remain focused on reducing the volume of operational incidents through continued investment in our technology and controls. The volume of operational incidents caused by technology are becoming less frequent across Barclays Group year-on-year, with a 13% reduction in the last 12 months. Where incidents do occur, we are resolutely focused on minimising any impact on customers.

There have been a number of significant regulatory developments around retail banking business models and pricing in 2018 that have the potential to impact our business models going forward, while potential new market entrants such as Fintechs and established large technology companies threaten to take market share from traditional banks.

As the deadline for Payment Protection Insurance (PPI) enquiries approaches, we continue to monitor responses and resource appropriately for any increase in the lead up to the August 2019 date, in order to ensure the right outcomes for our customers.

Key highlights of the year

Throughout 2018, we have demonstrated our position as leaders in innovation, providing customers with solutions to better serve their financial needs. Through automation and digitisation, over half of the products we delivered in 2018 were taken out digitally and 90% of our service transactions are now completed in a self-service fashion by our customers.

We have continued to develop the capabilities of our mobile banking app, Barclays Mobile Banking (BMB) to allow our customers to manage their finances more easily and effectively, with BMB becoming the most used banking app in the UK (eBenchmarkers). We now have around 10.8 million digitally active customers across mobile and online banking, around 5 million of whom are digital only.

We are proud to be the first major UK high street bank to allow customers to aggregate their other current accounts into our mobile banking app through Open Banking API technology, meaning that customers do not have to share their online banking log-in credentials with us in order to do this. We will continue to harness the opportunities that Open Banking provides in order to deliver new and exciting applications for our customers in the future.

By focusing our efforts on improving the end-to-end journeys for our customers, we have reduced the number of complaints we receive. Despite this, the level of complaints we receive is too high and reducing them further will be a key priority for us in 2019.

This year has seen further progress in ensuring we continue to properly support older, disabled or potentially vulnerable customers. A number of new services were launched including; the ability for deaf customers to contact us by telephone with the assistance of a third party interpreter, an online support page for people experiencing mental health concerns and a wide-range of considerations for older customers including fraud & scams awareness and accessible banking services.

We are investing in personalised ways to support customers who are showing that they may be experiencing early stages of financial stress. Enabled by a new sophisticated data engine, we have developed a suite of tailored contact to direct customers towards tools and information that could help them improve their financial health.

We have already helped over 6.7 million young people develop the core, transferable skills they need for the world of work through our LifeSkills program and we have committed to upskill another ten million people over the next five years to support all generations, across the whole of the UK.

Performance overview

Personal Banking

Our Community and Premier Banking team develop transparent and innovative solutions for our customers. We help customers move forward by putting them at the heart of everything we do, connecting the different aspects of their lives to their financial lives, at the time that suits them. This ranges from opening their first bank account to completing a mortgage on their dream home.

Savings, Investments & Wealth Management serves a spectrum of clients - from those who manage their own investments, requiring an execution service, to those who require a dedicated and holistic service through our Wealth Management business.

Community & Premier Banking

Throughout the year, we have helped our Community and Premier customers go forward through a range of both new products and propositions, as well as enhancements to existing ones.

We have made a range of enhancements to BMB in order to help our customers manage their finances more effectively. As well as being able to view current accounts from other banks, we continue to give customers more control of their financial lives. Misplaced debit cards can now be temporarily frozen through BMB, preventing any cash machine withdrawals and online or in-store debit card purchases. We have also implemented a calendar view feature showing regular payments scheduled for the month ahead to assist in better financial planning, as well as an improved view of transaction details, including a map view, so our customers can identify with whom they have spent their money more quickly and easily.

We continued to reward customers who chose to bank with us, launching two switching campaigns in 2018 based on our Blue Rewards proposition. Our first campaign offered double rewards for a year for switching, followed by a subsequent campaign offering double Rewards for Community and triple Rewards for Premier customers for switching to a Barclays Current Account through the Current Account Switch Service. 1.4 million customers now benefit from Blue Rewards, including Cashback.

In 2018, we helped over 110,000 customers take out a mortgage or further borrowing on their property, 22,000 of which were first time buyers. Demonstrating our commitment to Barclays Group's green finance agenda, we were the first major UK bank to offer a Green Mortgage product. The Barclays Green Home Mortgage rewards customers with lower rates on certain deals when purchasing new energy efficient homes and builds upon Barclays Group's green offering.

Savings, Investments & Wealth Management
In 2018, we brought our Savings proposition together with our Wealth and Investments business so that we can seek to offer our customers and clients a flawless experience, whatever stage they are at in their savings and investments journey.

We launched our Flexible Monthly Income Bond, which enables customers to deposit a lump sum for a 3-year term and then drawdown the capital on a monthly basis to supplement their income. This is a unique and innovative product designed for customers in the retirement segment, with the launch linked to National Pension Awareness Day.

Customers who want instant access to their savings can now open an Everyday Saver account entirely through BMB. We have seen a huge customer response to this, with over 60% of Everyday Saver accounts opened digitally in 2018.

In our Wealth Management business, we continued our focus on growth throughout 2018, with a number of new hires and continued strong levels of new client acquisition, although market conditions have been challenging, impacting our overall assets under management. Investment will be made to improve the client experience and productivity of our Wealth Managers during 2019.

After a difficult start to the year, with issues relating to the migration of customers to our digital investing proposition, Smart Investor, we have worked to enhance the platform in 2018 – for example customers can now sign up to Smart Investor via BMB. However, there remains work to do in 2019 to turn the platform into a leading digital investments offering. To this end, we have a confirmed 2019 delivery roadmap, based on client feedback, that will see significant upgrades to the platform throughout the year.

Barclaycard Consumer UK
Barclaycard Consumer UK is a leading credit card provider, providing flexible borrowing and payment solutions to around 10 million customers in the UK. We help people move forward, by helping them to borrow and pay, in the way that suits them. We are a responsible lender, providing credit based on credit history, ability to afford credit and our risk appetite, while seeking to deliver a leading customer experience.

In 2018, we have looked at further ways to meet the needs of our customers. At Barclaycard Consumer UK, we inspire confidence by making sure everything we do is secure, reliable and useful to our customers and clients, like giving our customers 24/7 fraud protection to keep their money safe and equipping customers with the knowledge to protect themselves from fraud. Our Fraud Fighter campaign highlights that fraud is not always so easy to spot and encourages customers to use our Fraud Fighter Tool.

We worked to better understand the needs of different customer circumstances and help put the customer in control. We launched a credit build tool that offers tips and advice to help customers build their credit score. We helped customers move forward this year with our first ever product upgrade from Initial to Platinum for qualifying price promise customers – we upgraded customers who kept their accounts in order for 12 months to help them further build their credit score and go forward to do the things they want to do, with confidence, every day.

We are also committed to ensuring more transparency with our customers, not just in the ways that we communicate with them, but by simplifying the ways that our products work. Over the last year, we have waived interest charges on purchases that are paid in full if a card also has a promotional balance. Under this new scheme, cardholders that make new purchases during the billing cycle and pay them off in full by their payment due date will no longer pay any interest on those transactions, thus removing the need for customers to use separate cards for their spending and balance transfers.

We challenge ourselves to think differently, and create a model that lowers complaints and provides better customer experience while delivering sustainable returns. Customers want relevant, personalised payment and borrowing options, coupled with perfect digital-driven experiences and they want those experiences to come to them, in the digital channels they choose, at the moment that's right for them. In a first for any of Barclays Bank UK Group's retail banking products, customers can now acquire a Barclaycard credit card on an external Open Banking Mobile app.

Business Banking
Business Banking offers products, services and specialist advice to over one million clients in the UK, ranging from start-ups to mid-sized businesses, to help them achieve their goals.

Business Banking provides support to clients across the UK at all stages of their business cycle through a relationship-based and digitally-driven service.

Our UK-wide network of experts has helped thousands of businesses get started and grow, with access to specialist industry insights across key segments such as Agriculture and Real Estate. We also support Education, Social Housing and Local Authorities (ESHLA). Although new lending to ESHLA clients is met through Barclays Bank PLC, Barclays Bank UK PLC continues to support ESHLA clients, for example by agreeing a number of mergers within Social Housing, which gives clients the capacity to continue building more new homes to address UK housing needs.

Innovation is an integral part of our strategy for growth and continues to be at the forefront of our services. In 2018, we announced a number of key partnerships with fintech businesses, such as our industry-leading collaboration with PayPal, enhancing customers' digital payments, saving SMEs time and putting them in control, with access to marketing, inventory and other valuable data all in one place. We collaborated with MarketInvoice, Europe's largest online invoice financing platform, providing small businesses with access to invoice financing products and transforming the way SMEs manage cash flow and accelerate growth.

We also launched £100,000 unsecured lending limits for SMEs, doubling our maximum limits for unsecured business loans for eligible clients, making small business lending faster, simpler and easier. This adds to our existing unsecured lending offering which allows qualifying SME clients to access pre-assessed affordable lending up to £25,000 via our mobile app and through online banking, often receiving the cash that same day.

Risk management

Barclays Bank UK Group is exposed to internal and external risks as part of our ongoing activities. These risks are managed as part of our business model.

Enterprise Risk Management Framework

At Barclays Bank UK Group, risks are identified and overseen through the Enterprise Risk Management Framework (ERMF), which supports the business in its aim to embed effective risk management and a strong risk management culture. The ERMF is approved by the Barclays PLC board on recommendation of the Barclays Group Risk officer; it is then adopted by the Barclays Bank UK Group with minor modifications where needed.

The ERMF specifies the Principal Risks of Barclays Bank UK Group and the approach to managing them.

Risk Appetite

Risk Appetite defines the level of risk we are willing to take across the different risk types, taking into consideration varying levels of financial and operational stress. Risk Appetite is key for our decision making process, including ongoing business planning, new product approvals and business change initiatives. We have taken significant steps to de-risk our business, setting us up for sustainable growth in the future.

The management of risk is embedded into each level of the business, with all colleagues being responsible for identifying and controlling risks.

Three Lines of Defence

The First Line of Defence is comprised of the revenue generating and client facing areas, along with all associated support functions, including Finance, Treasury, Human Resources and Operations and Technology. The First Line identifies its risks, and sets the policies, standards and controls, within the criteria set by the Second Line of Defence.

The Second Line of Defence is made up of Risk and Compliance and oversees the First Line by setting the limits, rules and constraints on their operation, consistent with the Risk Appetite.

The Third Line of Defence is comprised of Internal Audit, providing independent assurance to the Board and Executive Management.

Although the Legal function does not sit in any of the three lines, it works to support them all and plays a key role in overseeing Legal risk. The Legal function is also subject to oversight from the Risk and Compliance functions with respect to the management of operational and conduct risks.

Monitoring the Risk Profile

Together with a strong governance process, using Business and Group-level Risk Committees as well as Board level forums, the Board of Barclays Bank UK PLC receives regular information in respect of the risk profile of Barclays Bank UK PLC, and has ultimate responsibility for Risk Appetite and capital plans.

We believe that our structure and governance will assist us in managing risk in the changing economic, political and market environments.

Principal risk management

Risks are classified into Principal Risks, as below			How risks are managed
Financial Principal Risks	Credit Risk	The risk of loss to the firm from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the firm, including the whole and timely payment of principal, interest, collateral and other receivables.	Credit risk teams identify, evaluate, sanction, limit and monitor various forms of credit exposure, individually and in aggregate.
	Market Risk	The risk of loss arising from potential adverse changes in the value of the firm's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, credit spreads, implied volatilities and asset correlations.	A range of complementary approaches to identify and evaluate market risk are used to capture exposure to market risk. These are measured, limited and monitored by market risk specialists.
	Treasury and Capital Risk	Liquidity Risk: The risk that the firm is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. Capital Risk: The risk that the firm has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes). This includes the risk from the firm's pension plans. Interest Rate Risk in the Banking Book: The risk that the firm is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its (non-traded) assets and liabilities.	Treasury and capital risk is identified and managed by specialists in Capital Planning, Liquidity, Asset and Liability Management and Market Risk. A range of approaches are used appropriate to the risk, such as; limits; plan monitoring; and stress testing.
Non-Financial Principal Risks	Operational Risk	The risk of loss to the firm from inadequate or failed processes or systems, human factors or due to external events (e.g. fraud or cyber crime) where the root cause is not due to credit or market risks.	The Barclays Bank UK Group assesses its operational risk and control environment across its businesses and functions with a view to maintaining an acceptable level of residual risk.
	Model Risk	The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.	Models are evaluated for approval prior to implementation, and on an ongoing basis.
	Reputation Risk	The risk that an action, transaction, investment or event will reduce trust in the firm's integrity and competence by clients, counterparties, investors, regulators, employees or the public.	Reputation risk is managed by maintaining a controlled culture within the Barclays Bank UK Group, with the objective of acting with integrity, enabling strong and trusted relationships to be built with customers and clients, colleagues and broader society.
	Conduct Risk	The risk of detriment to customers, clients, market integrity, competition or Barclays from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.	The Compliance function sets the minimum standards required, and provides oversight to monitor that these risks are effectively managed and escalated where appropriate.
	Legal Risk	The risk of loss or imposition of penalties, damages or fines from the failure of the firm to meet its legal obligations including regulatory or contractual requirements.	The Legal function supports colleagues in identifying and limiting legal risks.

Performance measures

Performance measurement

The performance measures of Barclays Bank UK Group contribute to the overall Barclays PLC Group performance measures. Barclays Bank UK Group provides diversification and balance to the Barclays Group. For the purposes of subsidiary reporting, the relevant measures have been isolated and disclosed below.

Financial performance measures

Barclays Bank UK Group financial performance measures are calculated at a specific legal entity basis, and disclosed below along with the Financial Review to provide further context.

Income Statement

Barclays Bank UK Group results For the year ended 31 December	2018[a] £m	2017 £m
Total income	5,606	27
Credit impairment charges and other provisions	(624)	-
Net operating Income	4,982	27
Operating expenses	(3,356)	(8)
Litigation and conduct	(78)	-
Total operating expenses	(3,434)	(8)
Profit before tax	1,548	19
Tax charge	(433)	(4)
Profit after tax	1,115	15
Other equity instrument holders	(105)	-
Attributable profit	1,010	15

Note
a Barclays Bank UK PLC acquired the UK banking business from Barclays Bank PLC on 1 April 2018.

Balance Sheet Information

As at 31 December	2018 £m	2017 £m
Assets		
Loans and advances at amortised cost	188,565	53
Liabilities		
Deposits at amortised cost	197,485	-

The financial information above is extracted from the published accounts. The balance sheet information disclosed represents the key customer balances in Barclays Bank UK Group. This information should be read together with the information included in the accompanying consolidated financial statements.

Throughout 2018, Barclays Bank UK PLC was regulated by the Prudential Regulation Authority (PRA) on an individual basis. The disclosures below provide key capital metrics for Barclays Bank UK PLC on an individual basis with further information on its risk profile included in the Barclays PLC Pillar 3 Report 2018. Barclays Bank UK Group became regulated by the PRA from 1 January 2019.

Other Metrics and Capital[a]

	2018 £m
Common equity tier 1 (CET1) ratio[b]	14.2%
Total risk weighted assets (RWAs)	75,327
Capital Requirements Regulation (CRR) leverage ratio	4.9%

Note
a Capital, RWAs and leverage are calculated applying the transitional arrangements of the CRR. This includes IFRS 9 transitional arrangements.
b The CET1 ratio includes foreseeable charges.

In 2018, Barclays officially stood up Barclays Bank UK PLC as part of structural reform, being the first bank in the UK to become legally ring-fenced. Throughout 2018, Barclays Bank UK PLC has maintained its position in the market as a leader in innovation, investing to transform customer interactions. Building long term, meaningful customer and client relationships continues to deliver sustainable balance sheet growth and returns, within a prudent risk appetite. This is further enhanced by investment to automate and digitise the provision of tailored products and services, meeting customers' needs on their terms.

Income Statement

Profit before tax was £1,548m and comprised of Personal Banking profit of £769m, Barclaycard Consumer UK profit of £565m and Business Banking profit of £363m, partially offset by a loss in Head Office of £149m.

Total income was £5,606m and comprised of Personal Banking income of £3,152m, Barclaycard Consumer UK income of £1,578m and Business Banking income of £991m, reflecting a focus on sustainable growth, continued momentum in mortgage lending and growth in customer deposits. This was partially offset by an expense of £115m in Head Office due to hedge arrangements and treasury operations.

Credit impairment charges were £624m including a Q4 2018 £100m specific charge for the impact of the anticipated economic uncertainty in the UK. This comprised of Personal Banking charges of £100m, Barclaycard Consumer UK charges of £477m, and Business Banking charges of £48m.

Operating expenses excluding litigation and conduct were £3,356m and comprised of £2,271m in Personal Banking, £486m in Barclaycard Consumer UK, £571m in Business Banking and £28m in Head Office. Operating expenses included investment to grow the business, including digitisation of the bank and improvements to future operating efficiency, offset by cost efficiencies.

Balance sheet and Capital

Loans and advances at amortised cost amounts to £188.6bn reflecting continued momentum in mortgage lending since the acquisition of the UK banking business on 1 April 2018. This comprised of Personal Banking £146.3bn, Business Banking £26.6bn and Barclaycard £15.7bn.

Deposits at amortised cost amounts to £197.5bn primarily including Personal Banking £154.1bn and Business Banking £43.3bn reflecting continued strong deposit growth.

Non-financial performance measures

Barclays Bank UK Group has addressed the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 through the disclosure contained in the Barclays PLC Annual report on pages 44 to 46.

Non-financial performance measures are defined and tracked at the Barclays Group level. Below is a selection of measures applicable to the Barclays UK division of the Barclays Group, upon which compliance is measured.

Customer and Client:

Key outcomes we will look to achieve include:

- Building trust with our customers and clients, so that they are happy to recommend us to others
- Successfully innovating and developing products and services that meet their needs
- Offering suitable products and services in an accessible way, ensuring excellent customer and client experience.

How we measure success

Measures used in our evaluation include, but are not limited to:

- Net Promoter Scores® (NPS)
- Lending volumes provided to customers and clients
- Digital engagement
- Complaints performance

How we are doing

Areas of encouragement:

Net Promoter Scores (NPS)[a]
The NPS across our brands are a view of how willing customers are to recommend our products and services to others, indicating how satisfied they are with their overall experience with us. Barclays Group NPS was +17 which reflected continued investment into our customer experience, value propositions and consumer campaigns that not only strengthen our brand but work to improve the financial and security awareness of our customers. Barclaycard UK relationship NPS stayed flat over the year, closing at +9 at year-end.

Lending volumes provided to customers and clients[b]
A vibrant small and medium-sized enterprise (SME) sector is a vital ingredient for a healthy market economy. Barclays UK provided new lending of £2.8bn to SMEs, 3% more than last year and completed over 110,000 mortgages for customers, worth over £23bn.

Digital engagement[c]
In the era of constant technological development, it is crucial for us to provide a market leading digital offering and digitally engage with our customers. By the end of 2018, over 10.8 million customers and clients in the UK were using our digital services on a regular basis, with our BMB user base consisting of nearly 6.2 million users. In the Open Banking environment, we are committed to serve a new type of client: developers. Through our API Exchange, we received more than 8.4 million calls to our open APIs in 2018.

BMB is the most used mobile banking app in the UK (source: eBenchmarkers) and was the first app from a major UK high street bank to enable account aggregation through Open Banking technology. This means that customers can now view their balances and transactions from other banks in BMB without having to share their online or mobile banking credentials. Further to this, we also improved the functionality of our app throughout 2018 to better help our customers manage their money, with a temporary card-freeze feature for misplaced debit cards, a calendar view of regular payments and the ability to open an Everyday Saver account entirely in BMB. This has proved particularly popular, with over 60% of Everyday Saver accounts being opened digitally this year. We will continue to add great new features to BMB in the near future, including Spend categorisation and Financial insights.

Areas of continued focus:

Complaints performance
In Barclays UK, we continue to focus on customer experience by transforming customer journeys. Our underlying complaint volumes reduced 9% year-on-year. However, we have seen an increase in PPI complaints of 2%. Total Barclays UK complaint volumes (including PPI) were down 1% year-on-year.

Colleague

Further information on our people at Barclays Bank UK Group is on page 19 and 20 of this report.

Citizenship

Further information on our Citizenship and Environmental, Social and Governance (ESG) activity is available in the Barclays PLC 2018 Annual Report. Barclays PLC also publishes an annual ESG Report, where additional detail on material ESG themes are available. Reports are available at home.barclays/annualreport

Notes

a NPS measures customer experience and facilitates benchmarking. It is widely used in banking and other industries and utilises a mixed-methodology to ensure full representativeness of financial behaviours across the UK population. The basis of Barclays Relationship NPS has been a 12-month rolling average to minimise data fluctuations. Source: GfK FRS, 12 months ending December 2018. Adults interviewed: 8,765 Barclays main Current Account holders (Barclays Relationship NPS), and 4,741 Barclays main Credit Card holders (Barclaycard UK Relationship NPS).

b Mortgage awards - Best Lender for Buy to Let (Moneywise), Best lender for Remortgage (Moneywise), Best Lender for Large loans (Moneywise), Best National Bank (Mortgage Strategy Gazette), Best Intermediary Lender (Mortgage Strategy Gazette), Best Overall Lender (Mortgage Strategy Gazette), Best Buy to Let Lender (Mortgage Strategy Gazette), Mortgage Lender of the Year (Mortgage Introducer), Best Offset Mortgage Lender (What Mortgage), Best remortgage lender (Personal Finance).

c Open APIs are publicly available application programming interfaces that provide developers programmatic access to our products and services and use them in third-party applications.

Sir Ian Cheshire
Chairman – Barclays Bank UK PLC
20 February 2019

Governance
Chairman's introduction

I am very pleased to present our first full Annual Report and Accounts as a ring-fenced entity.

I am particularly grateful to the new members of the Board, both for agreeing to join us in what is still an emerging regulatory structure and for their contribution to date as we have started to work together. We have a strong combination of technical and financial skills with broader business experience in culture, colleague engagement and technology. The new challenges of modern banking make it especially important to understand the wider external strategic landscape and the Board are focused on how we can help navigate this in order to deliver our mission of #letsgoforward.

Board Activities

The year has been a very busy one for the business, with significant focus on the establishment of Barclays Bank UK PLC as the UK's first major ring-fenced bank and the development and execution of our strategy.

We began the year by overseeing the transfer of the UK banking business of the Barclays PLC Group to Barclays Bank UK PLC and the implementation of a governance framework that enables the Barclays Bank UK Group to meet its regulatory requirements, operate independently within the Barclays Group and devise its own strategy. Internal control, risk and compliance functions were also established, with appropriate supporting policies and procedures.

This framework underpins our absolute commitment to ensuring the Barclays Bank UK Group is able to meet its regulatory obligations and maintain an open dialogue with our regulators.

Directors have spent considerable time, both inside and outside of formal meetings, familiarising themselves with the business and discussing our Strategy and Medium Term Business Plan.

The resilience of Barclays Bank UK Group's technology has been an area of focus, with reports regularly discussed at Board meetings. Barclays Bank UK PLC has introduced a protocol that requires Directors to be notified immediately in the event of a significant outage. We have also looked carefully at Barclays Bank UK Group's plans to minimise the impact on customers of the UK leaving the European Union.

The Board plays a critical role in setting the tone from the top and is actively involved in setting an open, positive culture that supports its strategy and adheres to the highest standards of conduct. We have discussed talent, engagement and culture plans and have reviewed dashboards and other data to ensure we are making real progress. The Board will receive further presentations on these topics from the CEO and Human Resources team during the early part of 2019, with roll out to the wider business expected soon after approval of these plans by the Board.

The Board was updated on key ongoing issues for the business, including PPI claims, the adoption of the new IFRS 9 accounting standard and regulatory matters. As the PPI regime begins to draw to a close we are determined not to have any repetition of that experience.

The Board also reviewed and approved the Barclays Bank UK Group's Reward Policy, following a recommendation from the Remuneration Committee.

Board Composition

The recruitment of the Board was completed earlier in the year. It now comprises seven independent non-executive directors, two executive directors and myself as Chairman. I also remain a director of Barclays PLC.

Appointments of non-executive directors to the Board were made via a formal, rigorous and transparent process, with each role being publicly advertised. Each appointment was based on merit, taking into account the skills, experience and diversity needs of the Board.

The recruitment of seven new directors over a relatively short period necessitated a comprehensive induction programme. Further details are set out in the Training and Induction section of the Corporate Governance Statement.

Directors visited a number of branches and sites and received presentations from all significant business units. We also received briefings on the legal and regulatory environment in which Barclays Bank UK Group operates, our responsibilities and the significance of Barclays Bank UK Group to the UK economy and to society more generally.

Familiarisation with the business will continue this year with further visits and presentations planned.

Board Effectiveness

We as a Board take very seriously our obligation to provide rigorous and constructive challenge to management on significant matters.

The skills, knowledge and experience needed for an effective Board are recorded in a skills matrix, which has been used by the Board to inform non-executive recruitment, induction and ongoing development. The Nominations Committee will consider Board and senior management succession plans in more detail over the coming year.

The Barclays' *Charter of Expectations* sets out role profiles and time commitments for all key Board positions and states the expectations and responsibilities for all directors. It also puts processes in place to ensure that the Board is provided with the accurate, timely and high-quality information that it needs to fulfil its duties.

The effectiveness of the Board will be evaluated by a leading independent evaluator in the coming year.

Risk

We also take very seriously our responsibility for setting Barclays Bank UK Group's risk appetite, that is, the level of risk it is prepared to take in the context of achieving its strategic objectives. The Barclays Bank UK Group's ERMF is designed to identify and set minimum requirements in respect of the main risks to achieving its strategic objectives and to provide reasonable assurance that internal controls are effective.

Assisted by our Risk Committee, we conduct robust assessments of the principal risks facing the Barclays Bank UK Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Audit Committees of Barclays Bank UK Group and the wider Barclays PLC Group oversee the effectiveness of Barclays Bank UK Group's internal and external auditors.

Relationship with the Barclays Group and Our Regulators

We operate as a wholly owned subsidiary of Barclays PLC, with a single line of executive management. We are very conscious of the need to avoid unnecessary duplication or costs of complexity. Barclays Bank UK PLC inputs into the development of Group strategy, however, we aim to adhere to one set of Barclays Group-wide rules for frameworks, policies and standards, unless local laws, regulations, or ring fencing obligations prohibit it. The Barclays Bank UK PLC Board oversees the management and performance of Barclays Bank UK Group's business, its governance, controls, compliance and execution of its strategy, in accordance with our legal and regulatory responsibilities.

The Barclays Bank UK PLC Board and Committee Chairs as well as Barclays Bank UK PLC's Senior Executives have met with Barclays Bank UK PLC's regulators many times during the year. Their engagement and constructive approach to the stewardship of the Barclays Bank UK Group's business is welcomed.

Our Colleagues

On behalf of the Barclays Bank UK Board I wanted to congratulate the teams across the whole business for delivering a strong returns performance in 2018, despite an uncertain environment. While this reflects the strengths of our brands, technical expertise and our strategy, it is ultimately down to the human element in our business. We will continue to look for stretching performance targets, starting with our colleagues' engagement, which, we know, will then reflect in our customer preference scores. Together with good cost controls this will ultimately deliver strong returns for shareholders. We will continue this balanced and long-term approach to managing the business.

A more detailed summary of the activity of the Board and its Committees follows.

Sir Ian Cheshire
Chairman – Barclays Bank UK PLC
20 February 2019

Corporate Governance Statement

Current Directors

Sir Ian Cheshire - Chairman of the Board and the Nominations Committee
Andrew Ratcliffe – Chairman of the Audit Committee
David Thorburn – Chairman of the Risk Committee
Michael Jary – Chairman of the Remuneration Committee
Avid Larizadeh Duggan
Kathryn Matthews
Chris Pilling
Sir John Timpson
Ashok Vaswani – Chief Executive Officer
Angela Anna Cross – Chief Financial Officer

The Board

The Board is responsible for ensuring the business is able to take decisions, operate independently and run in a way that promotes the long term success of Barclays Bank UK Group, creating and delivering sustainable value.

Central to this is the development and execution of a strategy for the business and the establishment of a corporate governance framework that embeds the right culture, values and behaviours throughout the Barclays Bank UK Group. This framework ensures that the business maintains an effective and proportional system of internal financial, legal and regulatory controls designed to support the reputation of the business, and mitigate financial and other risks.

The Board maintains a formal schedule of powers reserved to it to ensure control over key decision making. These include approval over key appointments, strategy, financial statements and any major acquisitions, mergers or disposals.

What we did in 2018

The primary focus for the Board this year was to oversee the embedding of Barclays Bank UK PLC as the new Barclays ring-fenced bank, which became fully operational on 1 April 2018. Board agendas have included the following topics:

Strategy and Operational Matters

- Oversight of post ring-fencing embedding activities following the successful transfer of the UK banking business from Barclays Bank PLC to Barclays Bank UK PLC under the Ring-fencing Transfer Scheme in April 2018
- Strategic projects and the formulation of the Barclays Bank UK Group's strategy
- The operational impact of the UK's decision to leave the European Union
- Updates from Barclays Bank UK Group's Chief Executive Officer on the business' operations and progress being made against strategy and key strategic projects such as ongoing enhancements to the customer journey
- Updates on progress towards making the Barclays Bank UK Group a great place to work for colleagues, and
- New developments in UK banking, particularly the emergence of more technology focussed competitors.

Finance and Liquidity

- Development and approval of the Barclays Bank UK Group's Medium Term Plan for 2018-2020
- Funding plans for Barclays Bank UK Group
- Regular updates on the financial performance of Barclays Bank UK Group and its main businesses through reports from the Barclays Bank UK Group Chief Financial Officer, and
- Barclays Bank UK Group's half year financial results and the declaration of a half year dividend.

Governance and risk (including regulatory issues)

- The Structural Reform regulations and the legal and regulatory responsibilities for directors of a ring-fenced bank
- The delegation of authority to the Barclays Bank UK PLC Board Risk Committee to approve Barclays Bank UK PLC's adoption of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP)
- Regular reports on the Barclays Bank UK Group's operational and technology capability, including updates on controls and cyber risk and resilience
- A review of the services provided by Barclays Services Limited, the Barclays Group's service company, to Barclays Bank UK Group
- Regular updates from the Barclays Bank UK Group Chief Controls Officer on the Barclays Bank UK Group internal controls framework
- Appointments to the Board and membership of Board Committees
- Regular updates from the Chairmen of Board Committees and the Chairwoman of the Barclays Investment Solutions Limited Board on matters discussed at meetings, and
- Risk parameters in the context of the Board's risk appetite.

Board Committees

Risk, Audit and Remuneration Committees were operational prior to the establishment of the ring fenced bank. Each has met a number of times during the year, setting forward agendas to establish regular reporting patterns and sufficient time for updates and the coverage of new topics.

A Nominations Committee has been formed and met for the first time in January 2019. During 2018, Nominations Committee items have been dealt with by the main Board. In particular, the Board considered the independence of non-executive Directors, potential conflicts of interest and measures to mitigate them.

Details of the terms of reference for each Committee and their respective memberships and activities are set out below.

Board Audit Committee

The Audit Committee is comprised of independent non-executive directors, with Andrew Ratcliffe acting as its Chairman. David Thorburn, Chris Pilling and Kathryn Matthews complete its membership. Andrew, David and Chris are also members of the Risk Committee, promoting consistency across two committees.

Meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer, Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer, Chief Compliance Officer, General Counsel and Barclays Bank UK Group's external auditors, KPMG.

The principal role and responsibilities of the Committee are set out in its terms of reference and include:

- Financial Reporting - assessing the integrity of the Barclays Bank UK Group's financial statements and reviewing any significant reporting issues and judgements made
- Internal Controls - reviewing the operation and effectiveness of the Barclays Bank UK Group's system of internal controls
- Internal Audit - monitoring and reviewing the operation, effectiveness, independence and objectivity of the Internal Audit function
- Regulatory Reporting - reviewing arrangements established by management for compliance with regulatory and financial reporting, including compliance with the statutory ring-fencing rules
- External Audit - reviewing and monitoring the external auditor's independence, objectivity and effectiveness, including oversight of the regulatory developments within the delivery of audit services
- Whistleblowing - reviewing the integrity, independence and effectiveness of the Barclays Bank UK Group's long standing policies and procedures on whistleblowing, and
- Material Legal Matters - oversight of significant contentious and non-contentious matters, together with current or emerging legal risks.

During 2018, the principal items on the Committee's Agenda included:

- Review of the Barclays Bank UK Group's Half Year Financial Statements and recommendation of their approval to the Board
- Review of the Barclays Bank UK Group's Q3 results for incorporation into the Barclays PLC Q3 Results Announcement
- Oversight of the Barclays Bank UK Group's implementation of IFRS 9
- Assessment of the appropriateness of key management judgements, including consideration of exposure to PPI (and other material conduct provisions) and accounting judgements (such as credit impairment and fair value)
- Oversight of the performance of the Internal Audit function, including an independent quality assurance assessment and approving the 2019 audit plan
- Consideration of the valuation of Barclays Bank UK Group's Education, Social Housing and Local Authority Loan Portfolio
- Receiving deep dives from management in areas of the business where internal audit reports had recommended improvements to existing controls
- Monitoring management progress on the development of a bespoke Risk Control Self-Assessment framework
- Consideration and adoption of a Barclays Bank UK Group specific policy on the provision of non-audit services by the statutory auditor
- Monitoring the Whistleblowing program, and receiving regular Whistleblowing metrics as they relate to the Barclays Bank UK Group and ensuring that the procedures for protection from detrimental treatment of staff who raise concerns continue to be effective, and
- Receiving updates on financial crime activity that impacted the Barclays Bank UK Group in 2018, ahead of the publication of the first dedicated regulatory Barclays Bank UK PLC Money Laundering Reporting Officer report in 2019.

A comprehensive internal control framework is in place within the Barclays Bank UK Group and regular reports on its operation (and its continued enhancement) are received by the Committee on a quarterly basis. This includes reports from both Internal Audit and External Audit functions as well as related plans and management actions to remediate control recommendations raised in those reports.

Board Nominations Committee

During the period, the Committee was established but did not meet. Any appointments within the Committee's remit were approved by the Board. The Committee's first meeting took place in January 2019 where an agenda of activities was established for the coming year.

The Committee is comprised of independent non-executive directors and is chaired by Sir Ian Cheshire. The other members are Andrew Ratcliffe, David Thorburn and Michael Jary. The Chairman will invite the Chief Executive and Human Resources Director to attend meetings.

The principal role and responsibilities of the Committee are set out in its terms of reference and include:

- Skills and Diversity - to evaluate the balance of skills, knowledge, experience and diversity for the Barclays Bank UK PLC Board and more broadly across the senior management of the business
- Director Appointments - to identify, and recommend to the Board, candidates for appointment to the Barclays Bank UK PLC Board and its Committees
- Director Independence - to consider and assess the independence of non-executive directors, including recommendations for any steps to manage conflicts or potential conflicts of interest
- Board Performance - to assess the performance of non-executives and their annual time requirements
- Board Evaluation - to consider any actions from the Barclays Bank UK PLC Board evaluation process that relate to the composition of the Board or Committees
- Board Development - leading the development and effective implementation of policies and procedures for the induction, training and professional development of all members of the Barclays Bank UK PLC Board, and
- Barclays Bank UK Group Talent - to oversee the adoption of internal policies and talent progression for senior management.

Board Remuneration Committee

The Committee is comprised of independent non-executive directors and is chaired by Michael Jary. The other members are Avid Larizadeh Duggan and Sir John Timpson.

Meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer, the Human Resources Director and the Head of Reward.

The principal role and responsibilities of the Committee are set out in its terms of reference and include:

- Remuneration Policy – to set and recommend, for Board approval, a remuneration policy setting out the objectives, principles and parameters including reward and performance structures and pensions. Ensuring alignment with strategy, risk management and that incentives do not encourage risk taking beyond the tolerated risk of the Barclays Bank UK Group or undermine its ability to comply with ring-fencing rules
- Pay - considering the annual remuneration proposals for senior colleagues and the calculation of outturns made under formulaic incentive schemes and
- Overall Structure – having oversight for overall pay and benefits across Barclays Bank UK Group.

During 2018, the principal items on the Committee's Agenda included:

- Review and approval of the Barclays Bank UK Group incentive funding framework
- Consideration of stakeholder, regulatory and legal updates
- Review and approval of the methodology, framework and proposals for the 2018 remuneration review
- Consideration of financial and risk performance updates, and
- Updates on the Barclays Bank UK Group initiatives and developments.

Board Risk Committee

The Risk Committee is comprised of independent non-executive directors and is chaired by David Thorburn. The other members of the Committee are Michael Jary, Chris Pilling and Andrew Ratcliffe. Prior to David's appointment to the Board on 31 May 2018, Andrew acted as its interim Chairman of the Committee since its formation in March 2018.

Committee meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Chief Financial Officer and Chief Internal Auditor.

The principal role and responsibilities of the Committee are set out in its terms of reference and include:

- Risk Appetite and Risk Profile - reviewing and ensuring that the risks undertaken by the business are within the risk appetite of the Board
- Risk Limits – reviewing and adopting risk limits and mandates for financial and non-financial risk, monitoring the risk profile, and receiving and considering reports on key risk issues
- Regulatory - reviewing and monitoring Barclays Bank UK PLC's capital and liquidity position including considering both the existing and the forecasted Barclays Bank UK Group risk profile and the potential impact of stress
- Monitoring the Internal risk and control framework
- Conduct Risk - reviewing effectiveness of the management of conduct risk, seeking to ensure fair customer outcomes following the implementation of policies, and reviewing the effectiveness of the Conduct Risk Management framework as it applies to the Barclays Bank UK Group, and
- Reputation Risk - reviewing the effectiveness of the management of reputation risk within Barclays Bank UK Group, receiving reports on any significant business decisions that may impact Barclays Bank UK Group's reputation and considering the ancillary reputational matters that emerge from other business decisions.

During 2018, the principal items on the Committee's Agenda included:

- Review of the internal control framework for Barclays Bank UK Group
- Review of the regular financial and non-financial risk reporting on each of the principal risks and monitoring the risk profile in accordance with the 2018 limits and mandates
- Monitoring compliance with key portfolio metrics including the use of Chief Risk Officer discretion
- Review of data aggregation risk limitations in accordance with Basel regulations
- Review and adoption of the relevant Barclays Group Policies, including the ERMF and the associated framework Barclays Bank UK PLC addenda
- Review of the risks associated with findings of internal audits
- Monitoring liquidity and capital levels and considering and approving the Barclays Bank UK Group sections of the Barclays Group ICAAP and ILAAP
- Review of the necessary sections of the European Banking Authority and Bank of England stress test submissions
- Review of the potential impact on the business of the UK's decision to leave the European Union
- Review of the ring fencing requirements and related attestation requirements
- A focused look at Barclays Bank UK Group's Education, Social Housing and Local Authority Loan Portfolio, and
- Consideration of regular reports on Barclays Bank UK Group's operational resilience.

Training and Induction

The Board received a full induction programme ahead of the transfer of the UK banking business on 1 April 2018.

Directors received introductions to the principal business units of Barclays Bank UK Group, namely Personal Banking (incorporating Community and Premier Banking as well as Savings, Investment & Wealth Management), Barclaycard Consumer UK and Business Banking and met key executives within those teams.

Sessions were organised to take Directors through the regulatory frameworks within which Barclays Bank UK Group operates and also their responsibilities under the Senior Manager Regime and as Directors more specifically. Presentations were also received on Structural Reform, the Risk & Control Environment, the Finance and Treasury team and Brand and Culture.

Their induction included visits to a number of sites and branches in London, Manchester and Liverpool and receiving deep dives on areas such as Complaints, Cyber Resilience and Ventures.

Diversity and Inclusion

The Board recognises the importance of ensuring that there is broad diversity among the Directors. This includes but is not limited to, gender, ethnicity, geography and business experience. In addition, we aim to ensure that all employees are treated equally and have the opportunity to be successful. For information on Barclays Bank UK Group's Gender Pay Gap results for 2018 please refer to page of 96 the Barclays PLC Annual Report 2018.

The Barclays Group's global Diversity and Inclusion (D&I) strategy sets objectives, initiatives and plans across five core pillars: Gender, LGBT, Disability, Multicultural and Multigenerational, in support of that ambition. Further information on the Barclays Group's *Board Diversity Policy* and D&I strategy can be found on pages 45 and 93 to 98 of the Barclays PLC Annual Report 2018.

Directors' Report

The Directors present their report together with the audited financial statements for Barclays Bank UK Group for the year ended 31 December 2018.

Section 414A of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Financial Statements. The information which fulfils this requirement can be found on pages 1 to 9.

Barclays Bank UK Group has addressed the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Act through the disclosure contained in the Barclays PLC Annual Report on pages 44 to 46. In addition, Barclays Bank UK Group has chosen, in accordance with section 414 C(11) of the Companies Act 2006 to include certain additional matters in its Strategic Report that would otherwise be required to be disclosed in this Directors' Report.

The particulars of important events affecting Barclays Bank UK Group since the financial year end can be found in the notes to the financial statements. An indication of likely future developments may be found in the Strategic Report.

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

	Pages
Employee involvement	19 to 20
Disability	20
Key performance indicators	7 to 9
Performance measures	7 to 8
Risk management	5
Principal Risks	6

Profits and dividends

The Barclays Bank UK Group operates through branches, offices and subsidiaries in the UK. The results of the Barclays Bank UK Group show profit after tax of £1,115m (2017: profit after tax of £15m). The Barclays Bank UK Group had net assets of £16,943m at 31 December 2018 (2017: £46m).

Barclays Bank UK PLC paid a half year dividend of £350m to Barclays PLC on 3 September 2018. More details are set out in Note 11 to the financial statements.

Share Capital

Barclays Bank UK PLC issued three ordinary shares to Barclays Bank PLC in 2018 (two on 1 January and one on 1 April). These were in consideration for the Barclays Bank Group subsidiary companies and businesses that were transferred to the Barclays Bank UK Group as part of the creation of the Ring Fenced Bank. Subsequently, Barclays Bank PLC transferred its entire shareholding in Barclays Bank UK PLC to Barclays PLC on 1 April to complete the Structural Reform Programme. There are no restrictions on the transfer of securities or agreements between holders of securities known to Barclays Bank UK PLC which may result in restrictions on the transfer of securities or voting rights. Further information on Barclays Bank UK PLC's share capital can be found in Note 27.

In 2018, Barclays Bank UK PLC reduced its share capital by £13,044m by cancelling its share premium and creating distributable reserves of the same amount. The capital reduction was carried out via a court-approved reduction of capital, approved by Barclays Bank UK PLC's shareholder at a general meeting on 17 July 2018. On 11 September 2018, the capital reduction became effective following confirmation by the High Court of Justice in England and Wales which was registered with the Registrar of Companies on the same day.

Powers of Directors to issue or buy back Barclays Bank UK PLC's shares

The powers of the Directors are determined by the Companies Act 2006 and Barclays Bank UK PLC's Articles of Association. No shares were repurchased in 2018 (2017: nil).

Directors

The list of current Directors of Barclays Bank UK PLC can be found in the Corporate Governance Report. The names and roles of all individuals who were directors of Barclays Bank UK PLC throughout 2018 and up to the date of signing this report are set out below.

Name	Role	Effective date of appointment
Avid Larizadeh Duggan	Non-Executive Director	1 January 2018
Sir Ian Cheshire	Non-Executive Director	3 April 2017
Michael Jary	Non-Executive Director	1 January 2018
Angela Anna Cross	Executive Director	19 August 2015
Kathryn Matthews	Non-Executive Director	19 February 2018
Christopher Pilling	Non-Executive Director	1 January 2018
Andrew Ratcliffe	Non-Executive Director	1 January 2018
David Thorburn	Non-Executive Director	31 May 2018
Sir John Timpson	Non-Executive Director	1 January 2018
Ashok Vaswani	Executive Director	3 April 2017

Directors' Indemnities

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 2018 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. In addition, Barclays Bank UK PLC maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

Political Contributions

Barclays Bank UK Group did not give any money for political purposes in the UK, the rest of the EU or outside of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. Details of any political contributions made by the wider Barclays Group can be found in the 2018 Barclays PLC Annual Report.

Environment

The Barclays Group focuses on addressing environmental issues where we believe we have the greatest potential to make a difference. We focus 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. Disclosure of global greenhouse gas emissions (GHG) is done at Barclays Group level with information available in the Barclays PLC 2018 Annual Report with fuller disclosure available on our website at home.barclays.com/citizenship.

Research and Development

In the ordinary course of business, Barclays Bank UK Group develops new products and services in each of its business divisions. Highlights of this activity appear in the Strategic Report.

Financial Instruments

Barclays Bank UK Group's 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 credit risk, market risk and liquidity risk are set out in pages 33 to 39.

The Auditors

The Barclays PLC Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Barclays Group. The Barclays Bank UK PLC Audit Committee monitors the Barclays Bank UK Group's use of the external auditors for non-audit services and the balance of audit and non-audit fees paid to them. More details on this can be found in Note 35 to the financial statements.

Going concern

In preparing each of the Barclays Bank UK Group and Parent company financial statements, the directors are required to:

- assess Barclays Bank UK Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate Barclays Bank UK Group and Parent company or to cease operations, or have no realistic alternative but to do so.

The Barclays Bank UK Group's business activities, financial position, capital, factors likely to affect its future development and performance, the process of the UK's withdrawal from the European Union, and its objectives and policies in managing the financial risks to which it is exposed are discussed in the Material Existing and Emerging Risks section. The Directors have evaluated these risks in the preparation of the financial statements and consider it appropriate to prepare the financial statements on a going concern basis.

Disclosure of Information to the Auditor

Each Director confirms that, so far as he/she is aware, there is no relevant audit information of which Barclays Bank UK PLC's auditors are unaware and that each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself /herself aware of any relevant audit information and to establish that Barclays Bank UK PLC's auditors are aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance with and subject to those provisions.

Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' report set out on page 98 to 105, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 2006 to prepare Barclays Bank UK Group and Barclays Bank UK PLC accounts for each financial year, and, with regards to Barclays Bank UK Group accounts, in accordance with Article 4 of the IAS Regulation. The Directors have prepared these accounts in accordance with IFRS as adopted by the EU. Under the Companies Act 2006, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Barclays Bank UK Group and Barclays Bank UK PLC of their profit or loss for that period.

The Directors consider that, in preparing the financial statements on pages 106 to 169, Barclays Bank UK 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.

Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Directors' responsibility statement

The Directors have responsibility for ensuring that Barclays Bank UK PLC keeps accounting records which disclose with reasonable accuracy the financial position of Barclays Bank UK PLC and which enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for preparing a Strategic Report and Directors' Report in accordance with applicable law and regulations.

The Directors are responsible for the maintenance and integrity of the Annual Report and Financial Statements as they appear on Barclays PLC's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

The Directors, whose names and functions are set out on page 16, 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 UK PLC and the undertakings included in the consolidation taken as a whole; and
(b) The management report on pages 1 to 18 which is incorporated in the Directors' Report, includes a fair review of the development and performance of the business and the position of Barclays Bank UK 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.

By order of the Board

Adrian de Souza
Company Secretary
20 February 2019

Registered in England.
Company No. 9740322

People

We place a great deal of importance in providing all colleagues with the right support and frameworks to enable them to rise, and to maximise their career goals and opportunities. Barclays Bank UK PLC colleague themes and initiatives are aligned to Barclays Group values and Strategic goals. The following subsections are therefore consistent with those detailed in the People Section of the Barclay's Group Annual Report and the figures mentioned are for Barclays Group.

Industrial Relations and Workforce

Barclays places great importance on our constructive approach to global employee and industrial relations. During 2018 we continued to work with Unite, our recognised trade union in the UK and with nine other unions and staff associations directly or through works councils internationally. In the UK, we consulted extensively with Unite on a wide range of restructuring proposals and in respect of changes to compensation structures. Our shared aim where there is restructuring - consistent with our partnership approach to industrial relations - is to minimise compulsory job losses wherever possible. This is achieved through voluntary redundancy and extensive redeployment processes and arrangements. All colleagues who are displaced as a result of restructuring are offered career transition support. In 2018 c.900 colleagues were supported globally (a take up rate of over 80% of those impacted by restructuring), with over 95% satisfied with the career transition support provided.

Performance Management

Effective Performance management underpins our values-based culture. To support our success, colleagues align their objectives to business and team goals, this is 'what' they will deliver. Behavioural expectations are set in the context of our values, this is 'how' they will achieve their objectives. We encourage connected performance conversations throughout the year and we continue to run our global recognition programme to recognise the achievements of those who have demonstrated our values in the workplace.

Colleagues are also encouraged to be involved with the Company's performance by participating in our all-employee share plans, which have been running successfully for over 10 years.

Employee Communications

Barclays regularly updates employees on the financial and economic factors affecting the company's performance and the delivery of the strategy through Barclays Group CEO and senior leader communications, line manager briefing packs, infographics, videos, interviews and talking points distributed to employees every quarter in accordance with our financial reporting calendar.

We also hold a variety of events for employees so they can hear directly from the Group Executive Committee and employees are kept regularly informed about what is happening in their area and across Barclays through regular local engagement initiatives and communications that allow for discussion and build awareness and understanding. Campaigns and colleague stories throughout the year bring to life how we are living Barclays' Purpose, 'Creating opportunities to rise' and Values: Respect, Integrity, Service, Excellence and Stewardship on a daily basis, providing ongoing evidence of how we are supporting our colleagues, customers and clients and the communities and societies in which we work.

Be Well – Barclays Wellbeing Programme

Barclays global wellbeing programme "Be Well" has focused on three key areas in 2018; a refreshed commitment to make Barclays a "mental health confident" organisation, further development of our supportive culture and the implementation of new global digital infrastructure as the gateway to the programme.

The mental health confident agenda has addressed both the stigma that can prevent open conversations about mental health – building on Barclays "This is Me" programme – while developing colleagues' capability to understand, identify and take appropriate action where others need help. The global launch campaign involved a film of senior leaders and Board members sharing their personal reflections on mental health issues and the important role that support from colleagues can play in helping others. The call to action to colleagues was to become mental health confident themselves by completing new online development programmes on "mental health awareness" and "mental health confident". By year end over 16,000 colleagues had completed "awareness" and c.3,500 had completed the "confident" module, which launched in October to coincide with World Mental Health Day.

85% of colleagues already feel that their line manager takes a sincere interest in their wellbeing according to the 2018 Your View survey. To help translate this consistently into practical action, a new guide "Leading our supportive culture" was launched in November for managers, addressing key scenarios and the range of supportive actions that they can take.

The launch in November of a new global Be Well portal and online health check has provided access to all Barclays wellbeing content and support in one place. The portal incorporates an interactive health check tool which targets content in the portal according to colleagues' identified health risks.

Gender Pay Reporting

Barclays PLC is publishing a Gender Pay Gap report on 21 February 2019. This document will contain Gender Pay Gap information for the Company. The results will also be uploaded to the Government's Gender Pay Gap reporting portal to meet statutory reporting requirements.

Disability & Mental Health

Supporting colleagues with disabilities and mental health conditions to achieve their goals is a key priority. As part of our role as a Disability Confident Leader under the UK Government's Department of Work and Pensions Disability Confident scheme, Barclays has taken an active role in encouraging more businesses to join the scheme, which now exceeds 7,000. To mark International Day of Persons with Disabilities we launched a paper "Building disability and mental health confidence" which documents our journey to becoming a more accessible and inclusive business.

Our policies for hiring and selection, and in the broad management of our teams require all employees at Barclays to give full and fair consideration of disabled persons on the basis of their skills and aptitudes. As part of the Disability Confident scheme we actively encourage applications from those with a disability or health condition, and we continually develop different recruitment models to remove the barriers to work for people of all abilities. Our Able to Enable internship is just one example. We encourage everyone who is either working with Barclays, or considering doing so, to open up and share information that will help us to provide the support and adjustments, including appropriate training, that they need to be able to feel valued and fulfilled at work. Barclays' policies are designed to provide training, career development and promotion opportunities for all, including employees with a disability or health condition.

Reach, the disability and mental health network

Reach, our disability and mental health colleague network, supports colleagues with disabilities, and physical and mental health conditions, to develop and grow their careers within Barclays. It has engaged colleagues through a range of campaigns during 2018 including World Autism Week, Deaf Awareness Week and World Sight Day. Reach have grown the number of colleague-led mental health peer support groups both within the UK and in the US. In July, they launched a new global interactive version of the Workplace Adjustment Passport to create an even simpler way for colleagues to record their adjustments and make for easier conversations as they move through their careers at Barclays. Through the 'Your View' survey 6% of respondents disclosed a disability or mental health condition and the number of colleagues registering as allies through our Reach Purple Champions initiative doubled during 2018 with over 1,600 colleagues registering.

Risk review
Content

The management of risk is a critical underpinning to the execution of Barclays Bank UK Group's strategy. The material risks and uncertainties the Barclays Bank UK Group faces across its business and portfolios are key areas of management focus.

Supervision and regulation

Risk management

Barclays' risk management strategy

Introduction

The activities of Barclays Bank UK Group entail risk taking, every day, throughout its business. This section introduces these risks, and outlines arrangements for identifying and managing them. Barclays Bank UK Group's approach to fostering a strong risk culture is also described.

Enterprise Risk Management Framework (ERMF)

The ERMF sets the strategic direction for risk management by defining standards, objectives and responsibilities for all areas of Barclays Group. It is approved by the Barclays PLC Board on recommendation of the Barclays Group Chief Risk Officer; it is then adopted by the Barclays Bank UK Group with minor modifications where needed. It supports senior management in effective risk management and developing a strong risk culture.

The ERMF sets out:

- Principal risks faced by the Barclays Bank UK Group
- Risk appetite requirements
- Roles and responsibilities for risk management
- Risk committee structure.

Principal risks

The ERMF identifies eight principal risks (see table on page 6 of the Strategic Report) and sets out associated responsibilities and risk management standards.

Risk appetite for the principal risks

Risk appetite is defined as the level of risk which Barclays Bank UK Group is prepared to accept in the conduct of its activities.

Risk appetite is approved by the Barclays PLC Board and disseminated across legal entities, including Barclays Bank UK PLC and its subsidiaries, with limits specified to control exposures and activities that have material concentration risk implications for Barclays Bank UK Group.

Roles and responsibilities in the management of risk

The Three Lines of Defence

All colleagues are responsible for understanding and managing risks within the context of their individual roles and responsibilities, as set out below.

First Line of Defence

The First Line of Defence comprises all employees engaged in the revenue generating and client facing areas of Barclays Bank UK Group and all associated support functions, including Finance, Treasury, Human Resources and the Chief Operating Office (COO) function. Employees in the First Line are responsible for:

- identifying the risks in their activities and developing appropriate policies, standards and controls
- operating within any and all limits which the Risk and Compliance functions establish over the exposures and activities of the first line; and
- escalating risk events to senior managers in Risk and Compliance.

Second Line of Defence

The Second Line of Defence comprises employees of Risk and Compliance. The role of the Second Line is to establish the limits, rules and constraints under which First Line activities shall be performed, consistent with the risk appetite of Barclays Bank UK Group, and to monitor the performance of the First Line against these limits and constraints. Note that the First Line may also set limits for a number of their activities related to Operational Risk. These will remain subject to supervision by the Second Line.

Third Line of Defence

The Third Line of Defence comprises employees of Internal Audit. They provide independent assurance to the Barclays Bank UK PLC Board and Executive Management over the effectiveness of governance, risk management and control.

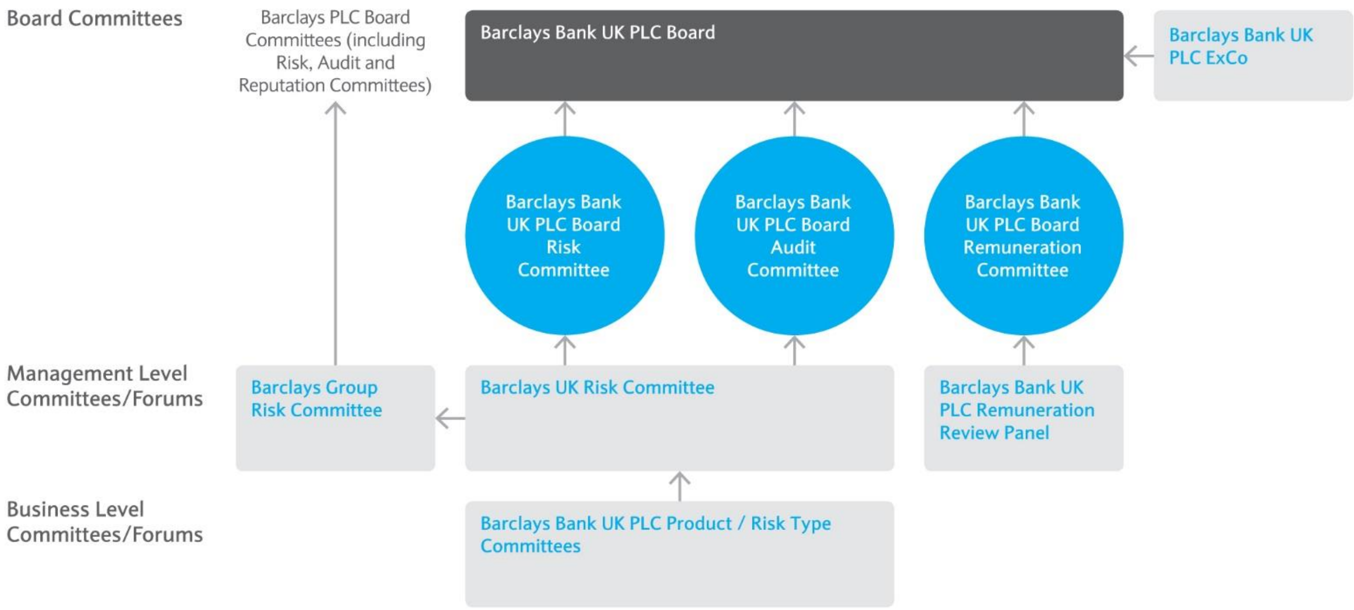
The Legal function does not sit in any of the three lines, but supports them all. The Legal function is, however, subject to oversight from Risk and Compliance with respect to operational and conduct risks.

Risk Committees

Barclays Bank UK Group Product/Risk Type Committees consider risk matters relevant to their business, and escalate as required to the Barclays UK Risk Committee, whose Chairman, in turn, escalates to the Barclays Group Risk Committee, Barclays Bank UK PLC Board Committees and the Barclays Bank UK PLC Board.

There are two Board-level forums which oversee the application of the ERMF and review and monitor risk across the Barclays Bank UK Group. These are: the Barclays Bank UK PLC Board Risk Committee and the Barclays Bank UK PLC Board Audit Committee. Additionally, the Barclays Bank UK PLC Board Remuneration Committee oversees pay practices focusing on aligning pay to sustainable performance. Finally, the Barclays Bank UK PLC Board receives regular information on the risk profile of the Barclays Bank UK Group, and has ultimate responsibility for risk appetite and capital plans.

The Barclays Bank UK PLC Board



One of the Board's responsibilities is the approval of risk appetite allocated to Barclays Bank UK Group. The Board is also responsible for the implementation of the ERMF.

The Barclays Bank UK PLC Board Risk Committee (BRC)

The BRC receives regular reports on risk methodologies, the effectiveness of the risk management framework, and Barclays Bank UK Group's risk profile, including the material 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 Barclays Bank UK PLC CRO or senior risk managers in the businesses. The Chairman of the BRC provides a verbal update at Barclays Bank UK PLC Board meetings.

All members are independent non-executive Directors. The Chairman of the BRC also sits on the BAC.

The Barclays Bank UK PLC Board Audit Committee (BAC)

The BAC receives regular reports on the effectiveness of internal control systems, on material control issues of significance, and on accounting judgements (including impairment). It also receives a half-yearly review of the adequacy of impairment allowances, which it reviews relative to the risk inherent in the portfolios, the business environment and Barclays Bank UK Group's policies and methodologies. The Chairman of the BAC also sits on the BRC.

The Barclays Bank UK PLC Board Remuneration Committee (RemCo)

The RemCo receives a detailed report on risk management performance and risk profile, and proposals on ex-ante and ex-post risk adjustments to variable remuneration. These inputs are considered in the setting of performance incentives.

Role of Barclays Group Risk Management Processes and Forums in Barclays Bank UK Group

The Barclays Group Risk teams and Board Committees conduct risk management activity, and oversight, in respect of Barclays Bank UK Group:

- Barclays Group Board allocates a portion of the overall risk appetite to Barclays Bank UK Group;
- Certain Barclays Group Committees and executives review, and take decisions on, matters, events or transactions originating in Barclays Bank UK Group that are relevant to the risk profile of the Barclays Group.
- Barclays Group-wide risk policies are owned by the Barclays Group Risk Function teams, and adopted by Barclays Bank UK Group. Entity-specific addenda are agreed with the Barclays Group where local regulations would otherwise preclude adoption, or to clarify or emphasise particular aspects.

Barclays Group risk culture

Risk culture can be defined as the "norms, attitudes and behaviours related to risk awareness, risk taking and risk management". This is reflected in how colleagues in Barclays Bank UK Group identify, escalate and manage risk matters.

Our Code of Conduct – the Barclays Way

Globally, all Barclays Group colleagues must attest to the "Barclays Way", our Code of Conduct, and all frameworks, policies and standards applicable to their roles. The Code of Conduct outlines the purpose and values which govern our Barclays Way of working across our business globally. It constitutes a reference point covering the aspects of colleagues' working relationships, with other Barclays Bank UK Group employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community.

Embedding of a values-based, conduct culture

Conduct, culture and values remain a priority of the Barclays Bank UK PLC Executive Committee who receive regular, detailed information from the business lines, and clearly communicate their intentions and Barclays Bank UK Group's progress to all colleagues. The effectiveness of the Risk and Control environment, for which all colleagues are responsible, depends on the continued embedment of strong values. Colleagues must be willing to meet their risk management responsibilities and escalate issues on a timely basis.

Induction programmes support new colleagues in understanding how risk management culture and practices support how the Barclays Bank UK Group does business and the link to Barclays' values. The Leadership Curriculum covers the building, sustaining and supporting of a trustworthy organisation and is offered to colleagues globally.

Other risk culture drivers

In addition to values and conduct, we consider the following determinants of risk culture:

- **Management and governance:** This means a consistent tone from the top and clear responsibilities to enable risk identification and challenge.
- **Motivation and incentives:** The right behaviours are rewarded and modelled.
- **Competence and effectiveness:** This means that colleagues are enabled to identify, escalate and resolve risk and control matters.
- **Integrity:** Colleagues are willing to meet their risk management responsibilities, and escalate issues on a timely basis.

Material existing and emerging risks

Material existing and emerging risks to Barclays Bank UK Group's future performance

Material risks are those to which senior management pay particular attention and which could cause the delivery of Barclays Bank UK Group's strategy, results of operations, financial condition and/or prospects to differ materially from current expectations.

Emerging risks are those which have largely unknown components, the impact of which could crystallise over a longer time horizon. These could currently be considered immaterial but over time may individually or cumulatively affect Barclays Bank UK Group's strategy and cause the same outcomes as material risks. In addition, certain factors beyond Barclays Bank UK Group's control, including escalation of terrorism or global conflicts, natural disasters and similar calamities, although not detailed below, could have a similar impact on Barclays Bank UK Group.

The risks described below are material existing and emerging risks which senior management has identified with respect to Barclays Bank UK Group.

Material existing and emerging risks potentially impacting more than one principal risk

i) Business conditions, general economy and geopolitical issues

Barclays Bank UK Group's business mix spreads across multiple client types. The breadth of these operations means that deterioration in the economic environment, or an increase in political instability where Barclays Bank UK Group is active, or in any systemically important economy, could adversely affect Barclays Bank UK Group's operating performance, financial condition and prospects.

Although economic activity continued to strengthen globally in 2018, a change in global/UK economic conditions and the reversal of the improving trend and/or the rising consumer debt environment may result in lower client activity in Barclays Bank UK Group, including lower demand for borrowing from creditworthy customers, and/or a reduction in the value of related collateral and/or an increase of Barclays Bank UK Group's default rates, delinquencies, write-offs, and impairment charges, which in turn could adversely affect Barclays Bank UK Group's performance and prospects. Deteriorating economic conditions could also impact the ability of Barclays Bank UK Group to raise funding from external investors. In addition, a shift in the forward looking consensus view of economic conditions may materially impact the models used to calculate expected credit losses (ECL), where an increase in ECLs could adversely affect Barclays Bank UK Group's profitability.

In the UK, the vote in favour of leaving the European Union (EU), see ii) Process of UK withdrawal from the European Union below, has given rise to political uncertainty with potential consequences for investment and market confidence. The initial impact was a depreciation of Sterling resulting in higher costs for companies exposed to imports and a more favourable environment for exporters. Rising domestic costs resulting from higher import prices may impact household incomes and the affordability of consumer loans and mortgages, resulting in reduced business and, thereby, negatively impacting Barclays Bank UK Group's profitability. In turn this may affect businesses dependent on consumers for revenue, exacerbated by current pressures on businesses dependent on discretionary purchases. There has also been a reduction in activity in both commercial and residential real estate markets which has the potential to impact the value of real estate assets and adversely affect mortgage assets.

New entrants to the UK financial services market, the implementation of Open Banking (see (iv) Regulatory change agenda and impact on business model) and the requirement to reflect and lead on new and emerging technologies may result in increased competition, lower client activity due to market dilution and increased costs.

ii) Process of UK withdrawal from the European Union

The uncertainty around Brexit spanned the whole of 2018, and intensified in the second half of the year. The full impact of the withdrawal may only be realised in years to come, as the economy adjusts to the new regime, but Barclays Bank UK Group continues to monitor the most relevant risks, including those that may have a more immediate impact, for its business:

- Potential UK financial institutions credit spread widening could lead to reduced investor appetite for Barclays Bank UK Group's debt securities; this could negatively impact the cost of and/or access to funding. There is potential for continued market and interest rate volatility. This volatility could affect underlying interest rate risk, value of the assets in the banking book, and securities held by Barclays Bank UK Group for liquidity purposes.
- A credit rating agency downgrade applied directly to Barclays Bank UK Group, or indirectly as a result of a credit rating agency downgrade to the UK Government, could significantly increase Barclays Bank UK Group's borrowing costs, credit spreads and materially adversely affect Barclays Bank UK Group's interest margins and liquidity position.
- Increased risk of a UK recession with lower growth, higher unemployment and falling UK house prices. This would likely negatively impact a number of Barclays Bank UK Group's portfolios, notably: higher Loan to Value mortgages, UK unsecured lending including credit cards and commercial real estate exposures.
- The implementation of trade and customs barriers between the UK and EU could lead to delays and increased costs in the passage of goods for business banking customers. This could negatively impact the levels of customer defaults and business volumes which may result in an increase in Barclays Bank UK Group's impairment charges and a reduction in revenues.
- The ability to attract, or prevent the departure of, qualified and skilled employees may be impacted by the UK's and the EU's future approach to the EU freedom of movement and immigration from the EU countries and this may impact Barclays' access to the EU talent pool.
- The legal framework within which Barclays Bank UK Group operates could change and become more uncertain if the UK takes steps to replace or repeal certain laws currently in force, which are based on EU legislation and regulation (including EU regulation of the banking sector) following its withdrawal from the EU. Certainty around the ability to perform existing contracts, enforceability of certain legal obligations and uncertainty around the jurisdiction of the UK courts may be affected until the impacts of the loss of the current legal and regulatory arrangements between the UK and EU and the enforceability of UK judgements across the EU are fully known.
- Should the UK lose automatic qualification to be part of Single Euro Payments Area there could be a resultant impact on the efficiency of, and access to, European payment systems. In addition, loss of automatic qualification to the European Economic Area (EEA) could impact service provision for clients, likely resulting in reduced market share and revenue and increased operating costs for Barclays Bank UK Group.

iii) Interest rate rises adversely impacting credit conditions

To the extent that the Bank of England increases interest rates, there could be an impact on consumer debt affordability and corporate profitability. Consumer affordability has been further impacted by household borrowing overtaking savings during 2018 for the first time since the late 1980s.

While interest rate rises could positively impact Barclays Bank UK Group's profitability due to margin de-compression, future interest rate increases, if larger or more frequent than expectations, could cause stress in the lending portfolio. Higher credit losses driving an increased impairment allowance would most notably impact retail unsecured portfolios.

Changes in interest rates could have an adverse impact on the value of high quality liquid assets which are part of Barclays Bank UK Group Treasury function's investment activity. Consequently, this could create more volatility than expected through Barclays Bank UK Group's FVOCI reserves.

iv) Regulatory change agenda and impact on business model

Barclays Bank UK Group remains subject to ongoing significant levels of regulatory change and scrutiny. As a result, regulatory risk will remain a focus for senior management and consume significant levels of business resources. Furthermore, a more intensive regulatory approach and enhanced requirements may adversely affect Barclays Bank UK Group's business, capital and risk management strategies and/or may result in Barclays Bank UK Group deciding to modify its legal entity, capital and funding structures and business mix, or to exit certain business activities altogether or not to expand in areas despite otherwise attractive potential.

Barclays Bank UK Group was established on 1 April 2018 as the ring-fenced entity under Barclays Group. The relevant rules required to comply with the UK ring-fencing regime are complex and will continue to entail significant costs and operational and legal risks. There may be a risk associated with the uncertainty around interpretation, administration and enforcement of the ring fencing regime as the regulatory requirements develop. This risk is compounded by the potential for different regulatory interpretation as standards are developed, the impact of the UK's withdrawal from the EU and internal factors, such as Barclays Group's strategy. Failure to maintain ongoing compliance, including from the implementation of any new regulatory requirements that may potentially be enforced, could result in regulatory censure or penalties for Barclays Bank UK Group.

Given Barclays Bank UK Group is now a ring-fenced entity, its risk-profile and key risk drivers support the assessment of credit rating agencies. Following the restructuring of the Barclays Group to establish Barclays Bank UK Group, Barclays Group and its subsidiaries are assessed by the credit rating agencies at their respective legal entity level which can result in differing credit ratings. The differences in credit ratings between the legal entities, could impact access and cost of funding for Barclays Bank UK Group in relation to the Barclays Group.

There are several other significant pieces of legislation and areas of focus which will require significant management attention, cost and resource, including:

- Changes in prudential requirements (including the risk reduction measures package recently adopted in the EU to amend the Capital Requirements Directive (CRD IV) and the Bank Recovery and Resolution Directive (BRRD)) may impact minimum requirements for own funds and eligible liabilities (MREL) (including requirements for internal MREL), leverage, liquidity or funding requirements, applicable buffers and/or add-ons to such minimum requirements and risk weighted assets calculation methodologies all as may be set by international, EU or national authorities. Such or similar changes to prudential requirements or additional supervisory and prudential expectations, either individually or in aggregate, may result in, among other things, a need for further management actions to meet the changed requirements, such as: increasing capital, MREL or liquidity resources, reducing leverage and risk weighted assets; restricting distributions on capital instruments; modifying the terms of outstanding capital instruments; modifying legal entity structure (including with regard to issuance and deployment of capital, MREL and funding); changing Barclays Bank UK Group's business mix or exiting other businesses; and/or undertaking other actions to strengthen Barclays Bank UK Group's position. (See Treasury and capital risk on pages 74 to 84 and Supervision and regulation on pages 91 to 96 for more information).
- The Barclays Group is subject to supervisory stress testing of which Barclays Bank UK Group forms a component part. These exercises currently include the programmes of the Bank of England and the European Banking Authority (EBA). These exercises are designed to assess the resilience of banks to adverse economic or financial developments and enforce robust, forward looking capital and liquidity management processes that account for the risks associated with their business profile. Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on Barclays Group's or certain of its members' business model, data provision, stress testing capability and internal management processes and controls. The stress testing requirements to which Barclays Group and its members are subject are becoming increasingly stringent. Failure to meet requirements of regulatory stress tests, or the failure by regulators to approve the stress test results and capital plans of Barclays Group, could result in Barclays Group being required to enhance its capital position, limit capital distributions or position additional capital in specific subsidiaries. For more information on stress testing, please see Supervision and regulation on page 93.
- The EU Benchmarks Regulation, which came into force in January 2018, regulates the use of benchmarks in the EU. In particular, after 1 January 2020 certain Barclays Bank UK Group entities will not be permitted to use benchmarks unless the relevant administrator is authorised, registered or qualifies under a third party regime. This may necessitate adapting processes and systems to transition to new alternative benchmarks, which would be a very time-consuming and costly process. Separately, the transition to risk-free rates as part of a wider benchmark reform is also expected to be impactful to Barclays Bank UK Group in respect of the timing of the development of a robust risk free rate market, an unfavourable market reaction and/or inconsistencies in the adoption of products using the new risk free rates, and also in respect of the costs and uncertainties involved in managing and/or changing historical products to reference risk free rates as a result of the proposed discontinuation of certain existing benchmarks.
- The introduction and implementation of both Payments Service Directive 2 (PSD2) and the Open API standards and data sharing remedy from the UK Competition and Markets Authority following its Retail Banking Market Investigation Order (together 'Open Banking') from January 2018 with delivery across 2019 provides third parties and banks with opportunities to change and enhance the relationship between a customer and their bank. It does this by providing customers with the ability to share their transactional data with authorised third party service providers either for aggregation or payment services. It is anticipated that both aggregation and payment services will be offered by third parties to Barclays Bank UK Group's customers and Barclays Bank UK Group itself has launched an aggregation service. PSD2 will also introduce new requirements to the authentication process for a number of actions customers take, including ecommerce transactions. A failure to comply with Open Banking requirements could expose Barclays Bank UK Group to regulatory sanction. Further, the data sharing regime could mean that actions or omissions by third party service providers could expose Barclays Bank UK Group to potential financial loss from third party fraud, misuse of customer data,

litigation and reputational detriment, amongst other things. The changes to authentication may change the fraud environment across the industry as providers implement different approaches to comply.

- In addition to the above, Barclays Bank UK Group is also subject to increasing technical regulation from both existing and new legislation, including but not limited to, the Consumer Credit Act and Consumer Credit Sourcebook Interpretation Manual and Regulatory Developments, the EU Benchmark Regulation, the EU General Data Protection Regulation (GDPR), the Payment Account Directive 2, The Wire Transfer Regulation, the revised Markets in Financial Instruments Directive (MiFID2) and the Anti Money Laundering Directives. Barclays Bank UK Group may be subject to enforcement or reputation risk from failure to properly implement or embed such legislation either due to process or legislative interpretation failures. Such risk could give rise to regulatory fines or sanctions, financial loss, litigation and reputational detriment, amongst other things.

Material existing and emerging risks impacting individual principal risks

i) Credit risk

a) Impairment

The introduction of the impairment requirements of IFRS 9 *Financial Instruments*, implemented on 1 January 2018, results in impairment loss allowances that are recognised earlier, on a more forward looking basis and on a broader scope of financial instruments than has been the case under IAS 39 and has had, and may continue to have, a material impact on Barclays Bank UK Group's financial condition.

Measurement involves increased complex judgement and impairment charges will tend to be more volatile, particularly under stressed conditions. Unsecured products with longer expected lives, such as revolving credit cards, are the most impacted. Taking into account the transitional regime, the capital treatment on the increased reserves has the potential to adversely impact regulatory capital ratios.

In addition, the move from incurred to expected credit losses has the potential to impact Barclays Bank UK Group's performance under stressed economic conditions or regulatory stress tests. For more information, please refer to Note 1 on pages 114 to 118.

b) Specific sectors and concentrations

Barclays Bank UK Group is subject to risks arising from changes in credit quality and recovery rate of loans and advances due from borrowers and counterparties in a specific portfolio. Any deterioration in credit quality could lead to lower recoverability and higher impairment in a specific sector. The following are areas of uncertainties to Barclays Bank UK Group's portfolio which could have a material impact on performance:

- **Consumer affordability** has remained a key area of focus for regulators, particularly in unsecured lending, driven by the growth in levels of borrowing. Macroeconomic factors, such as rising unemployment, that impact a customer's ability to service unsecured debt payments could lead to increased arrears in unsecured products.

- **UK real estate market.** UK property represents a significant portion of the overall Barclays Bank UK Group retail credit exposure. In 2018, house price growth across the UK continued, however, this growth has slowed in London and the South East where Barclays Bank UK Group's exposure has high concentration. Barclays Bank UK Group is at risk of increased impairment from a material fall in property prices due to the depreciation in value of the underlying loan security.

ii) Treasury and capital risk

Barclays Bank UK Group may not be able to achieve its business plans due to: a) inability to maintain appropriate capital ratios; b) inability to meet its obligations as they fall due; c) rating agency downgrades; d) adverse changes in foreign exchange rates on capital ratios; e) non-traded market risk/interest rate risk in the banking book.

a) Inability to maintain prudential ratios and other regulatory requirements

This could lead to Barclays Bank UK Group's inability to support business activity; a failure to meet regulatory capital requirements including any additional capital add-ons or the requirements set for regulatory stress tests; increased cost of funding due to deterioration in investor appetite or credit ratings; restrictions on distributions including the ability to meet dividend targets; and/or the need to take additional measures to strengthen Barclays Bank UK Group's capital or leverage position.

b) Inability to manage liquidity and funding risk effectively

This may result in Barclays Bank UK Group either not having sufficient financial resources to meet its payment obligations as they fall due or, although solvent, only being able to meet these obligations at excessive cost. This could cause Barclays Bank UK Group to fail to meet regulatory liquidity standards or be unable to support day-to-day banking activities.

The stability of Barclays Bank UK Group's current funding profile, in particular that part which is based on accounts and deposits payable on demand or at short notice, could be affected by general UK economic conditions and Barclays Bank UK Group failing to preserve the current level of customer and investor confidence in the financial services sector. Barclays Bank UK Group benefits from the additional deposit stability generated as a result of the guarantees provided under the Financial Services Compensation Scheme. Barclays Bank UK Group recognises that there is the potential for outflow of deposits or the reduction of the ability to access retail deposit funding on reasonable terms if the arrangement is altered or removed in future.

In the interest of generating greater resilience to liquidity stress events and to benefit from diversified sources of funding, Barclays Bank UK Group holds distinct relations with various counterparties with the intention of creating issuance capability for debt instruments which is independent of Barclays Group and to support its own funding requirements in addition to funding provided by the Barclays Group. Counterparties are likely however to incorporate an assessment of the health of the Barclays Group in addition to Barclays Bank UK Group specifically when making investment decisions. As with all financial institutions arranging funding, several factors, including adverse macroeconomic conditions, adverse outcomes in legal, regulatory or conduct matters and loss of confidence by investors, counterparties and/or customers in Barclays Bank UK Group, can affect the ability of Barclays Bank UK Group to access the capital markets and/or the cost and other terms upon which Barclays Bank UK Group is able to obtain market funding.

c) Credit rating changes and the impact on funding costs

Any potential or actual credit rating agency downgrades could significantly increase Barclays Bank UK Group's borrowing costs, credit spreads and materially adversely affect Barclays Bank UK Group's interest margins and liquidity position. Consequently, this may result in reduced profitability for Barclays Bank UK Group.

d) Adverse changes in FX rates impacting capital ratios

Barclays Bank UK Group equity is held in Sterling. However, some capital resources (e.g. MREL) are denominated in foreign currencies. Changes in foreign currency exchange rates may adversely impact the Sterling equivalent values of these items. As a result, some of Barclays Bank UK Group's regulatory capital ratios are sensitive to foreign currency movements. Failure to appropriately manage Barclays Bank UK Group's balance sheet to take account of foreign currency movements could result in an adverse impact on regulatory capital.

e) Non-traded market risk/interest rate risk in the banking book

A shortfall in the liquidity pool investment return could increase Barclays Bank UK Group's cost of funds and impact the capital ratios. Barclays Bank UK Group's structural hedge programmes for interest rate risk in the banking book rely on behavioural assumptions, as a result, the success of the hedging strategy is not guaranteed. A potential mismatch in the balance or duration of the hedge assumptions could lead to earnings deterioration.

iii) Operational risk

a) Cyber threat

The frequency of cyber-attacks continues to grow and is a global threat which is inherent across all industries, including the financial sector and is a key area of focus for Barclays Bank UK Group. The financial sector remains a primary target for cyber criminals. There is an increasing level of sophistication in both criminal and nation state hacking for the purpose of stealing money, stealing, destroying or manipulating data, including customer data, and/or disrupting operations, where multiple threats exist including threats arising from malicious emails, distributed denial of service (DDoS) attacks, payment system compromises, supply chain and vulnerability exploitation. Other events have a compounding impact on services and customers, e.g. data breaches in social networking sites, retail companies and payments networks.

Failure to adequately manage this threat could result in increased fraud losses, inability to perform critical economic functions, customer detriment, potential regulatory censure or penalties, legal liability, reduction in shareholder value and reputational damage.

b) Fraud

The level and nature of fraud threats continues to evolve, particularly with the increasing use of digital products and the greater functionality available online. Criminals continue to adapt their techniques and are increasingly focused on targeting customers and clients through ever more sophisticated methods of social engineering. External data breaches also provide criminals with the opportunity to exploit the growing levels of compromised data. These threats could lead to customer detriment, loss of business, regulatory censure, missed business opportunity and reputational damage.

Recent changes in the regulatory landscape will see increased levels of liability being taken by Barclays Bank UK Group as part of a voluntary code in the UK to provide additional protection to customers and clients who are victims of Authorised Push Payment scams.

c) Operational resilience

The loss of or disruption to Barclays Bank UK Group's business processing is a material inherent risk theme within Barclays Bank UK Group and across the financial services industry, whether arising through impacts on technology systems, real estate services, personnel availability or the support of major suppliers.

Failure to build resilience into business processes or into the services of technology, real estate or suppliers on which the business processes depend may result in significant customer detriment, costs to reimburse losses incurred by our customers, potential regulatory censure or penalties, and reputational damage.

d) *Supplier exposure*

Barclays Bank UK Group depends on suppliers, including Barclays Services Limited, for the provision of many of its services and the development of technology. Even though Barclays Bank UK Group depends on suppliers, it continues to be accountable for risk arising from the actions of such suppliers.

Failure to monitor and control Barclays Bank UK Group's suppliers could potentially lead to client information or critical infrastructures and services, not being adequately protected or available when required. The dependency on suppliers and sub-contracting of outsourced services introduces concentration risk where the failure of specific suppliers could have an impact on our ability to continue to provide services that are material to Barclays Bank UK Group.

Failure to adequately manage outsourcing risk could result in increased losses, inability to perform critical economic functions, customer detriment, potential regulatory censure, legal liability and reputational damage.

e) *Processing error*

Barclays Bank UK Group faces the risk of material errors in operational processes, including payments and client transactions.

Material operational or payment errors could disadvantage Barclays Bank UK Group's customers, clients or counterparties and could result in regulatory censure, legal liability, reputational damage and financial loss for Barclays Bank UK Group.

f) New and emergent technology

Technological advancements present opportunities to develop new and innovative ways of doing business across Barclays Bank UK Group, with new solutions being developed both in-house and in association with third party companies. Introducing new forms of technology, however, also has the potential to increase inherent risk.

Failure to evaluate, actively manage and closely monitor risk exposure during all phases of business development could lead to customer detriment, loss of business, regulatory censure, missed business opportunity and reputational damage.

g) Ability to hire and retain appropriately qualified employees

As a regulated financial institution, Barclays Bank UK Group requires diversified and specialist skilled colleagues. Barclays Bank UK Group's ability to attract, develop and retain a diverse mix of talent is key to the delivery of its core business activity and strategy. This is impacted by a range of external and internal factors, such as the UK's decision to leave the EU and the enhanced individual accountability applicable to the banking industry.

Failure to attract or prevent the departure of appropriately qualified and skilled employees could negatively impact our financial performance, control environment and level of employee engagement. Additionally, this may result in disruption to service which could in turn lead to disenfranchising certain customer groups, customer detriment and reputational damage.

h) Tax risk

Barclays Bank UK Group is required to comply with domestic and international tax laws and practices. There is a risk that Barclays Bank UK Group could suffer losses due to additional tax charges, other financial costs or reputational damage as a result of failing to comply with such laws and practice, or by failing to manage its tax affairs in an appropriate manner. In addition, increasing customer tax reporting requirements and the digitisation of the administration of tax has potential to increase Barclays Bank UK Group's tax compliance obligations further.

i) 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 effective interest rate methods for loans measured at amortised cost, credit impairment charges for amortised cost assets, taxes, fair value of financial instruments, and provisions including conduct and legal, competition and regulatory matters. There is a risk that if the judgement exercised, or the estimates or assumptions used, subsequently turn out to be incorrect, this could result in significant loss to Barclays Bank UK Group, beyond what was anticipated or provided for.

The further development of standards and interpretations under IFRS could also significantly impact the financial results, condition and prospects of Barclays Bank UK Group.

j) Data management and information protection

Barclays Bank UK Group holds and processes large volumes of data, including personally identifiable information, intellectual property, and financial data. Failure to accurately collect and maintain this data, protect it from breaches of confidentiality and interference with its availability exposes Barclays Bank UK Group to the risk of loss or unavailability of data (including customer data covered under v), c) Data protection and privacy, below) or data integrity issues. This could result in regulatory censure, legal liability and reputational damage, including the risk of substantial fines under the General Data Protection Regulation (GDPR), which strengthens the data protection rights for customers and increases the accountability of Barclays Bank UK Group in its management of that data.

iv) Model risk

Enhanced model risk management requirements

Barclays Bank UK Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures (including the calculation of impairment), conducting stress testing, assessing capital adequacy, supporting new business acceptance and risk and reward evaluation, managing client assets, and meeting reporting requirements.

Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. For instance, the quality of the data used in models across Barclays Bank UK Group has a material impact on the accuracy and completeness of our risk and financial metrics.

Models may also be misused. Model errors or misuse may result in Barclays Bank UK Group making inappropriate business decisions and being subject to financial loss, regulatory risk, reputational risk and/or inadequate capital reporting.

v) Conduct risk

There is the risk of detriment to customers, clients, market integrity, effective competition or Barclays Bank UK Group from the inappropriate supply of financial services, including instances of wilful or negligent misconduct. This risk could manifest itself in a variety of ways:

a) Product governance and life cycle

Ineffective product governance, including design, approval and review of products, inappropriate controls over internal and third party sales channels and post sales services, such as complaints handling, collections and recoveries, could lead to poor customer outcomes, as well as regulatory sanctions, financial loss and reputational damage.

b) Financial crime

Barclays Bank UK Group may be adversely affected if it fails to effectively mitigate the risk that third parties or its employees facilitate, or that its products and services are used to facilitate financial crime (money laundering, terrorist financing and proliferation financing, breaches of economic and financial sanctions, bribery and corruption, and the facilitation of tax evasion). UK and US regulations concerning financial institutions continue to focus on combating financial crime. Failure to comply may lead to enforcement action by Barclays Bank UK Group's regulators together with severe penalties, affecting Barclays Bank UK Group's reputation and financial results.

c) Data protection and privacy

Proper handling of personal data is critical to sustaining long-term relationships with our customers and clients and to meeting privacy laws and obligations. Failure to protect personal data can lead to potential detriment to our customers and clients, reputational damage, regulatory sanctions and financial loss, which under the GDPR may be substantial (see iii (j) Data management and information protection, above).

d) Regulatory focus on culture and accountability

Regulators around the world continue to emphasise the importance of culture and personal accountability and the adoption and enforcement of adequate internal reporting and whistleblowing procedures in helping to promote appropriate conduct and drive positive outcomes for customers, colleagues, clients and markets. Failure to meet the requirements and expectations of the UK Senior Managers Regime, Certification Regime and Conduct Rules may lead to regulatory sanctions, both for the individuals and Barclays Bank UK Group.

vi) Reputation risk

Barclays' association with sensitive sectors and its impact on reputation

A risk arising in one business area can have an adverse effect upon Barclays Bank UK Group's overall reputation; any one transaction, investment or event that, in the perception of key stakeholders reduces their trust in Barclays Bank UK Group's integrity and competence.

Barclays Bank UK Group's association with sensitive topics and sectors is an area of concern for stakeholders, including:

- Disclosure of climate risks and opportunities, including the activities of certain sections of the client base, which has become the subject of increased scrutiny from regulators, NGOs and other stakeholders.
- The risks of association with human rights violations through the perceived indirect involvement in human rights abuses committed by clients and customers.
- The manufacture and export of military and riot control goods and services by clients and customers.

These associations have the potential to give rise to reputation risk for Barclays Bank UK Group and may result in loss of business, regulatory censure and missed business opportunity.

In addition to the above, Reputation risk has the potential to arise from operational issues or conduct matters which cause detriment to customers, clients, market integrity, effective competition or Barclays Bank UK Group (see iv a) Cyber threat, iv j) Data management and information protection, and v) Conduct risk, above).

vii) Legal risk and legal, competition and regulatory matters

Legal disputes, regulatory investigations, fines and other sanctions relating to conduct of business and breaches of legislation and/or regulations may negatively affect Barclays Bank UK Group's results, reputation and ability to conduct its business.

Barclays Bank UK Group conducts diverse activities in a highly regulated market and therefore is exposed to the risk of fines and other sanctions. Authorities have continued to investigate past practices, pursued alleged breaches and imposed heavy penalties on financial services firms. A breach of applicable legislation and/or regulations could result in Barclays Bank UK Group or its staff being subject to criminal prosecution, regulatory censure, fines and other sanctions in the jurisdictions in which it operates. Where clients, customers or other third parties are harmed by Barclays Bank UK Group's conduct, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between Barclays Bank UK Group and third parties relating to matters such as breaches, enforcement of legal rights or obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in Barclays Bank UK Group being liable to third parties or may result in Barclays Bank UK Group's rights not being enforced as intended.

Details of legal, competition and regulatory matters to which Barclays Bank UK Group is currently exposed are set out in Note 25. In addition to matters specifically described in Note 25, Barclays Bank UK Group is engaged in various other legal proceedings which arise in the ordinary course of business. Barclays Bank UK Group is also subject to requests for information, investigations and other reviews by regulators, governmental and other public bodies in connection with business activities in which Barclays Bank UK Group is, or has been, engaged.

The outcome of legal, competition and regulatory matters, both those to which Barclays Bank UK Group is currently exposed and any others which may arise in the future, is difficult to predict. In connection with such matters Barclays Bank UK Group may incur significant expense, regardless of the ultimate outcome, and any such matters could expose Barclays Bank UK Group to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional litigation; criminal prosecution; the loss of any existing agreed protection from prosecution; regulatory restrictions on Barclays Bank UK Group's business operations including the withdrawal of authorisations; increased regulatory compliance requirements; suspension of operations; public reprimands; loss of significant assets or business; a negative effect on Barclays Bank UK Group's reputation; loss of confidence by investors, counterparties, clients and/or customers; risk of credit rating agency downgrades; potential negative impact of the availability and/or cost of funding and liquidity; and/or dismissal or resignation of key individuals. 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 Barclays Bank UK Group's results of operations or cash flow for a particular period.

In January 2017, Barclays was sentenced to serve three years of probation from the date of the sentencing order in accordance with the terms of its May 2015 plea agreement with the US Department of Justice (DOJ). During the term of probation, Barclays Group must among other things, (i) commit no crime whatsoever in violation of the federal laws of the US, (ii) implement and continue to implement a compliance program designed to prevent and detect the conduct that gave rise to the plea agreement and (iii) strengthen its compliance and internal controls as required by relevant regulatory or enforcement agencies. Potential consequences of Barclays Group including Barclays Bank UK Group breaching the plea agreement include the imposition of additional terms and conditions on Barclays Group, an extension of the agreement, or the criminal prosecution of Barclays Group, which could, in turn, entail further financial penalties and collateral consequences and have a material adverse effect on Barclays Group's business, operating results or financial position.

There is also a risk that the outcome of any legal, competition or regulatory matters in which Barclays Bank UK Group is involved may give rise to changes in law or regulation as part of a wider response by relevant law makers and regulators. A decision in any matter, either against Barclays Bank UK Group or another financial institution facing similar claims, could lead to further claims against Barclays Bank UK Group.

Credit risk (audited)

The risk of loss to the firm from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the firm, including the whole and timely payment of principal, interest, collateral and other receivables.

Overview

The credit risk that Barclays Bank UK Group faces arises from retail and wholesale loans and advances together with the counterparty credit risk arising from derivative contracts with clients; trading activities, including: debt securities, settlement balances with market counterparties, FVOCI assets and reverse repurchase loans. Wholesale lending in Barclays Bank UK Group includes Business Banking, ESHLA and Wealth UK portfolios.

Credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk;
- identify, assess and measure credit risk clearly and accurately across Barclays Bank UK 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;
- enable risk-reward objectives to be met.

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 greater in number but lesser in value and are, therefore, managed in aggregated segments.

The credit risk management teams in Barclays Bank UK Group are accountable to the Barclays Bank UK PLC CRO who, in turn, reports to the Barclays Group CRO.

Barclays Bank UK PLC Board Risk Committee

- Considers and recommends Barclays Bank UK Group's risk appetite for wholesale and retail credit risk to the Barclays Bank UK PLC Board
- Reviews Barclays Bank UK Group's risk profile for wholesale and retail credit on behalf of the Barclays Bank UK PLC Board
- Reviews the management of Barclays Bank UK Group's wholesale and retail credit risk
- Commissions, receives and considers reports on key financial and non-financial risk issues in the Barclays Bank UK Group

Barclays UK Risk Committee

- Reviews and recommends to the Barclays Group Risk Committee and Barclays Bank UK PLC Board Risk Committee the proposed wholesale and retail credit risk appetite for Barclays Bank UK Group
- Reviews and recommend limits and/or tolerances to control risk appetite for wholesale and retail credit risk
- Reviews and monitors the wholesale and retail credit risk profile of the Barclays Bank UK Group

Barclays Group Risk Committee

- Reviews appetite for wholesale and retail credit risk and makes recommendations on the setting of limits to the Barclays PLC Board
- Monitors the risk profile for wholesale and retail credit risk
- Reviews and monitors the control environment for wholesale and retail credit risk

Barclays Bank UK Group Business Risk Committees

- Mortgage & Transaction Banking
- Personal Loans
- UK Cards
- Wealth Management
- Business Banking
- Reviews & monitors the risk profile of Barclays Bank UK Group product portfolios extending to the coverage of all relevant principal risks and any other risks to which Barclays Bank UK Group is exposed.
- Reviews and recommends to the Barclays Bank UK PLC CRO, and Barclays UK Risk Committee the proposed risk appetite for the product portfolios.
- Reviews and recommends limits and/or tolerances to control risk appetite.

Barclays Bank UK PLC Wholesale Credit Risk Committee

- Reviews & monitors the risk profile of Barclays Bank UK Group Wholesale Credit Portfolios (excluding Business Banking and Wealth). This extends to coverage of all Principal Risks and any other risks to which Barclays Bank UK Group is exposed.
- Reviews and recommends to the Barclays UK Risk Committee the proposed Risk Appetite for Wholesale Credit.
- Review and recommend limits and/or tolerances to control Risk Appetite.

Roles and responsibilities

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

For wholesale portfolios, credit risk approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. The largest credit exposures, which are outside the Risk Sanctioning Unit or Risk Distribution Committee authority, require the support of the Barclays Bank UK PLC Senior Credit Officer. For exposures in excess of the Barclays Bank UK PLC Senior Credit Officer's authority, approval by the Barclays Group Senior Credit Officer/Barclays PLC Board Risk Committee is also required. Barclays Group Credit Risk Committee, attended by the Barclays Bank UK PLC Senior Credit Officer, provides a formal mechanism for the Barclays Group Senior Credit Officer to exercise the highest level of credit authority over the most material Barclays Group single name exposures.

In the wholesale portfolios, credit risk managers are organised in sanctioning teams by industry and/or product.

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

Governance and oversight of expected credit losses

Barclays Bank UK Group relies on Barclays Group processes in overseeing the estimation of ECL, including: i) setting requirements in policy, including key assumptions and the application of key judgements; and ii) the design and execution of models.

i. Impairment policy requirements are set and reviewed regularly by Barclays Group, at a minimum annually, to maintain adherence to accounting standards. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the significant increase in credit risk (SICR), are separately supported by analytical study. In particular, the quantitative thresholds used for assessing SICR are subject to a number of internal validation criteria, particularly in retail portfolios where thresholds decrease as the origination PD of each facility increases. Key policy requirements are also typically aligned to Barclays Bank UK Group's credit risk management strategy and practices, for example, wholesale customers that are risk managed on an individual basis are assessed for ECL on an individual basis upon entering Stage 3; furthermore, key internal risk management indicators of high risk are used to set SICR policy, for example, retail customers identified as High Risk Management Accounts are automatically deemed to have met the SICR criteria.

ii. ECL is estimated in line with internal policy requirements using models which are validated by a qualified independent party to the model development area, the Independent Validation Unit (IVU), before first use and at a minimum annually thereafter. The IVU is a Barclays Group function. Each model is designated an owner who is responsible for:
   - Monitoring the performance of the model, which includes comparing predicted ECL versus flow into Stage 3 and coverage ratios; and
   - Proposing post-model adjustments (PMA) to address model weaknesses or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Each PMA above an absolute and relative threshold is approved by the IVU for a set time period (usually a maximum of six months) together with a plan for remediation. The most material PMAs are reviewed by Barclays Bank UK PLC Chief Risk Officer.

   Models must also assess ECL across a range of future economic conditions. These economic scenarios are generated via an independent model and ultimately set by the Senior Scenario Review Committee, run by Barclays Group. Economic scenarios are regenerated at a minimum annually, to align with Barclays medium term planning exercise, but also if the external consensus of the UK or US economy materially worsen. The scenario probability weights are also updated when scenarios are regenerated and reviewed by the Senior Scenario Committee. Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data in golden source systems, documented data transformations and documented lineage of data transfers between systems.

iii. The Barclays Bank UK Group's organisational structure and internal governance processes oversee the review of impairment results. The Barclays Bank UK Group Impairment Committee, formed of members from both Finance and Risk, is responsible for overseeing impairment policy and practice across Barclays Bank UK Group and will approve impairment results. Reported results and key messages are communicated to the Barclays Bank UK PLC Board Audit Committee, which has an oversight role and provides challenge of key assumptions, including the basis of the scenarios adopted.

Credit risk mitigation

Barclays Bank UK Group employs a range of techniques and strategies to actively mitigate credit risks. These can broadly be divided into three types:

- netting and set-off
- collateral
- risk transfer.

Netting and set-off

In most jurisdictions in which Barclays Bank UK Group operates, credit risk exposures can be reduced by applying netting and set-off. In exposure terms, this credit risk mitigation technique has the largest overall impact on net exposure to derivative transactions, compared with other risk mitigation techniques.

For derivative transactions, Barclays Bank UK Group's normal practice is to enter into standard master agreements with counterparties (e.g. ISDAs). These master agreements typically allow for netting of credit risk exposure to a counterparty resulting from derivative transactions against the obligations to the counterparty in the event of default, and so produce a lower net credit exposure. These agreements may also reduce settlement exposure (e.g. for foreign exchange transactions) by allowing payments on the same day in the same currency to be set-off against one another.

Collateral

Barclays Bank UK Group has the ability to call on collateral in the event of default of the counterparty, comprising:

- **home loans:** a fixed charge over residential property in the form of houses, flats and other dwellings. The value of collateral is impacted by property market conditions which drive demand and therefore value of the property. Other regulatory interventions on ability to repossess, longer period to repossession and granting of forbearance may also affect the collateral value.
- **wholesale lending:** a fixed charge over commercial property and other physical assets, in various forms.
- **other retail lending:** includes charges over motor vehicle and other physical assets; second lien charges over residential property, which are subordinate to first charges held either by Barclays Bank UK Group or by another party; and finance lease receivables, for which typically Barclays Bank UK Group retains legal title to the leased asset and has the right to repossess the asset on the default of the borrower.
- **derivatives:** Barclays Bank UK Group also often seeks to enter into a margin agreement (e.g. Credit Support Annex) with counterparties with which Barclays Bank UK Group has master netting agreements in place. These annexes to master agreements provide a mechanism for further reducing credit risk, whereby collateral (margin) is posted on a regular basis (typically daily) to collateralise the mark to market exposure of a derivative portfolio measured on a net basis. Barclays Bank UK Group may additionally negotiate the receipt of an independent amount further mitigating risk by collateralising potential mark to market exposure moves.
- **reverse repurchase agreements:** collateral typically comprises highly liquid securities which have been legally transferred to Barclays Bank UK Group subject to an agreement to return them for a fixed price.
- **financial guarantees and similar off-balance sheet commitments:** cash collateral may be held against these arrangements.

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 creditworthy than the original counterparty, then overall credit risk is reduced;
- where recourse to the first counterparty remains, both counterparties must default before a loss materialises. This is less likely than the default of either counterparty individually so credit risk is reduced.

Market risk (audited)

The risk of loss arising from potential adverse changes in the value of the firm's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations.

Overview

Market Risk within Barclays Bank UK Group arises from the risk management of the assets held within the liquidity pool. As a result, the market risk in Barclays Bank UK Group is minimal. Transactions carrying market risk are executed by the Barclays Bank UK Group Treasury function.

Organisation and structure

Barclays Bank UK PLC Board Risk Committee

- Considers and recommends Barclays Bank UK Group's risk appetite for market risk
- Reviews Barclays Bank UK Group's market risk profile, on behalf of the Barclays Bank UK PLC Board
- Reviews the management of Barclays Bank UK Group's market risk
- Commissions, receives and considers reports on key financial and non-financial risk issues in the Barclays Bank UK Group

Barclays UK Risk Committee

- Reviews and recommends to the Barclays Group Risk Committee and Barclays Bank UK PLC Board Risk Committee the proposed market risk appetite for Barclays Bank UK Group
- Reviews and recommend limits and/or tolerances to control Risk Appetite for market risk
- Reviews and monitors the market risk profile of the Barclays Bank UK Group

Barclays Group Risk Committee

- Monitors Principal Risks as defined in the Enterprise Risk Management Framework, including Market Risk
- Reviews and recommends to Barclays PLC Board Risk Committee the market risk profile and risk strategy across Barclays Group
- Considers issues escalated by Members, Chief Risk Officers, Principal Risk Leads or the Chairperson in sub Committees/Forums

Barclays Group Market Risk Committee

- Reviews market risk appetite proposals from the business
- Oversees the management of Barclays Group's market risk profile
- Reviews arising market or regulatory issues
- Reviews state of the implementation of the risk frameworks in the businesses

Roles and responsibilities

The objectives of market risk management are to:

- understand and control market risk by robust measurement, limit setting, reporting and oversight
- control market risk within the allocated appetite.

To meet the above objectives, a governance structure is in place to manage these risks consistent with the ERMF.

The Barclays Bank UK PLC Board Risk Committee recommends market risk appetite to the Barclays Bank UK PLC Board for their approval, within the parameters set by the Barclays PLC Board. The Barclays Bank UK PLC CRO confirms the Barclays Bank UK Group market risk appetite with the Barclays Group CRO.

The Market Risk Committee approves and makes recommendations concerning the Barclays Group-wide market risk profile. This includes overseeing the operation of the Market Risk Framework and associated standards and policies; reviewing market or regulatory issues and limits and utilisation. The committee is chaired by the Barclays Group Market Risk Principal Risk Lead.

The Barclays Bank UK PLC Treasurer is accountable for all market risks associated with its activities, while principal risk lead for Barclays Bank UK Group market risk is responsible for implementing the risk control framework for market risk.

Management Value at Risk

- estimates the potential loss arising from unfavourable market movements, over one day for a given confidence level
- differs from the regulatory capitalisation
- market risk in Barclays Bank UK Group is capitalised via a standardised methodology.

VaR is an estimate of the potential loss arising from unfavourable market movements if the current positions were to be held unchanged for one business day. For internal market risk management purposes, a historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level is used for all trading books and some banking books.

When reviewing VaR estimates, the following considerations are taken into account:

- the historical simulation uses the most recent two years of past data to generate possible future market moves, but the past may not be a good indicator of the future
- the one-day time horizon may not fully capture the market risk of positions that cannot be closed out or hedged within one day

- VaR is based on positions as at close of business and consequently, it is not an appropriate measure for intra-day risk arising from a position bought and sold on the same day
- VaR does not indicate the potential loss beyond the VaR confidence level.

Limits are applied at the total level as well as by risk factor type, which are then cascaded down to particular trading desks and businesses by the market risk management function.

Treasury and capital risk

Liquidity risk: The risk that the firm is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Capital risk: The risk that the firm has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes). This includes the risk from the firm's pension plans.

Interest rate risk in the banking book: The risk that the firm is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its (non-traded) assets and liabilities.

Overview

Barclays Bank UK Group Treasury manages Treasury and Capital Risk exposure on a day-to-day basis with the Barclays Bank UK PLC Asset and Liability Committee (ALCO) acting as the principal management body. To enforce effective oversight and segregation of duties and in line with the ERMF, the Treasury and Capital Risk function is responsible for oversight of key capital, liquidity and interest rate risk in the banking book (IRRBB) activities. The following describes the structure and governance associated with the risk types within the Treasury and Capital risk function.

Organisation and structure

Barclays Bank UK PLC Board Risk Committee

- Reviews Barclays Bank UK Group's treasury and capital risk profile, on behalf of the Barclays Bank UK PLC Board
- Considers and recommends Barclays Bank UK Group's risk appetite for treasury and capital risk
- Reviews the management of Barclays Bank UK Group's treasury and capital risk
- Commissions, receives and considers reports on key financial and non-financial risk issues in the Barclays Bank UK Group
- Recommends the approval of ICAAP and ILAAP to the Barclays Bank UK PLC Board

Barclays UK Risk Committee

- Reviews and monitors the treasury and capital risk profile of the Barclays Bank UK Group
- Reviews and recommends to the Barclays Group Risk Committee and Barclays Bank UK PLC Board Risk Committee the proposed treasury and capital risk appetite for Barclays Bank UK Group
- Reviews and recommend limits and/or tolerances to control Risk Appetite for treasury and capital risk
- Reviews and recommends the ICAAP and ILAAP to the Barclays Bank UK PLC Board Risk Committee for approval

Barclays Group Risk Committee

- Reviews and recommends risk appetite to the Barclays PLC Board Risk Committee
- Escalates material issues impacting treasury and capital risk to the Barclays PLC Board Risk Committee
- Reviews and recommends the ICAAP and ILAAP to the Barclays PLC Board Risk Committee for approval

Barclays Group Treasury and Capital Risk Committee

- Manages treasury and capital risk appetite
- Monitors the treasury and capital risk profile
- Monitors the treasury and capital risk control environment
- Recommends risk appetite to the Barclays Group Risk Committee and Barclays PLC Board Risk Committee
- Escalates material issues impacting treasury and capital risk to the Barclays Group Risk Committee and Barclays PLC Board Risk Committee

Liquidity risk management (audited)

Overview

The efficient management of liquidity is essential to Barclays Bank UK Group in retaining the confidence of the financial markets and maintaining the sustainability of the business. There is a control framework in place for managing liquidity risk and this is designed to maintain liquidity resources that are sufficient in amount and quality and funding tenor profile that is adequate to meet the liquidity risk appetite as expressed by the Barclays Bank UK PLC Board based on internal and regulatory liquidity metrics.

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.

Roles and responsibilities

The Treasury and Capital Risk function is responsible for the management and governance of the liquidity risk mandate defined by the Barclays Bank UK PLC Board and the production of ILAAPs. Treasury has the primary responsibility for managing liquidity risk within the set risk appetite.

Barclays' comprehensive control framework for managing Barclays Bank UK Group's liquidity risk is designed to deliver the appropriate term and structure of funding, consistent with the liquidity risk appetite set by the Barclays Bank UK PLC Board.

The control framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Barclays Bank UK Group balance sheet and contingent liabilities. 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. In addition, Barclays Group maintains a Recovery Plan which includes application to Barclays Bank UK Group. Together, these tools reduce the likelihood that a liquidity stress event could lead to an inability to meet Barclays Bank UK Group's obligations as they fall due. The control framework is subject to internal conformance testing and internal audit review.

The Barclays Bank UK PLC Board approves the Barclays Bank UK Group funding plan, internal stress tests and results of regulatory stress tests. The Barclays Bank UK PLC Asset Liability Committee is responsible for monitoring and managing liquidity risk in line with Barclays Bank UK Group's funding management objectives, funding plan and risk frameworks. The Barclays UK Risk Committee monitors and reviews the liquidity risk profile and control environment, providing Second Line oversight of the management of liquidity risk. The Barclays Bank UK PLC Board Risk Committee reviews the risk profile, and annually reviews risk appetite and the impact of stress scenarios on the Barclays Bank UK Group funding plan/forecast in order to agree Barclays Bank UK Group's projected funding abilities.

Barclays Bank UK Group maintains a range of management actions for use in a liquidity stress, these are documented in the Barclays Group Recovery Plan. Since the precise nature of any stress event cannot be known in advance, the actions are designed to be flexible to the nature and severity of the stress event and provide a menu of options that can be drawn upon as required. The Barclays Group Recovery Plan also contains more severe recovery options to generate additional liquidity in order to facilitate recovery in a severe stress. Any stress event would be regularly monitored and reviewed using key management information by Treasury, Risk and business representatives.

Capital risk management (audited)

Overview

Capital risk is managed through ongoing monitoring and management of the capital position, regular stress testing and a robust capital governance framework.

Roles and responsibilities

The management of capital risk is integral to Barclays Bank UK Group's approach to financial stability and sustainability management, and is embedded in the way Barclays Bank UK Group and its businesses operate.

Capital risk management is underpinned by a control framework and policies. Capital plans reflect the capital management strategy and are implemented to deliver on Barclays Bank UK Group's objectives, which are aligned to those of Barclays Group. Barclays Bank UK Group-specific capital plans are developed in conformance with the Barclays Group control framework and policies for capital risk, including Barclays Bank UK Group addenda.

The Barclays Bank UK PLC Board approves the Barclays Bank UK Group capital plan, internal stress tests and results of regulatory stress tests. The Barclays Bank UK PLC Board also approves the recovery options documented in the Barclays Group Recovery Plan pertaining to Barclays Bank UK. The Barclays Bank UK PLC Asset and Liability Committee (ALCO), together with the Barclays Group Treasury Committee, are responsible for monitoring and managing capital risk in line with Barclays Bank UK Group's capital management objectives, capital plan and risk frameworks. The Barclays UK Risk Committee monitors and reviews the capital risk profile and control environment, providing Second Line oversight of the management of capital risk. The Barclays Bank UK PLC Board Risk Committee reviews the risk profile, and annually reviews risk appetite and the impact of stress scenarios on the Barclays Bank UK Group capital plan/forecast in order to agree Barclays Bank UK Group's projected capital resources.

Barclays Bank UK Group Treasury has the primary responsibility for managing and monitoring capital. The Barclays Bank UK Group Treasury and Capital Risk function has responsibility for capital risk oversight. Production of the Barclays Bank UK PLC ICAAP is the joint responsibility of Barclays Bank UK Group Risk and Barclays Bank UK Group Finance.

In 2018, Barclays Bank UK PLC complied with all regulatory minimum capital requirements.

Primary objectives	Core practices
▪ Maintain adequate capital for Barclays Bank UK Group to withstand the impact of the risks that may arise under normal and stressed conditions.	▪ Meet minimum regulatory requirements in all jurisdictions ▪ Maintain capital buffers over regulatory minimums ▪ Perform internal and regulatory stress tests ▪ Contribute Barclays Bank UK Group specific actions into Barclays Group contingency plans for severe and extreme stresses, which include stress management actions and recovery actions.
▪ Maintain adequate capital to cover Barclays Bank UK Group's current and forecast business needs and associated risks in order to provide a viable and sustainable business offering.	▪ Maintain capital ratios aligned with rating agency expectations. ▪ Maintain a capital plan on a short-term and medium-term basis aligned with Barclays Group and Barclays Bank UK Group's strategic objectives, balancing capital generation of the business with business growth and shareholder distributions.

Interest rate risk in the banking book management

Overview

Banking book operations generate non-traded market risk, primarily through the mismatch between the duration of assets and liabilities and where interest rates on products reset at different dates. As per Barclays Bank UK Group's policy to remain within the defined risk appetite, interest rate and FX risks residing in the banking books of the businesses are transferred to Barclays Bank UK Group Treasury where they are centrally managed. Currently, these risks are transferred to Barclays Bank UK Group Treasury via funding arrangements, interest rate or FX swaps. However, the businesses remain susceptible to market risk from seven key sources:

- **repricing/residual risk:** the impact from the mismatch between the run-off of product balances and the associated interest rate hedges or from unhedged liquidity buffer investments.
- **structural risk:** the change to the net interest income on hedge replenishment due to adverse movements in interest rates, assuming that the balance sheet remains constant.
- **prepayment risk:** the potential loss in value if actual prepayment or early withdrawal behaviour from customers deviates from the expected or contractually agreed behaviour, which may result in a hedge or funding adjustment at a cost to Barclays Bank UK Group. Exposures are typically considered (where appropriate) net of any applicable offsetting early repayment charges. This risk principally relates to early repayment of fixed rate loans or withdrawal from fixed rate savings products.
- **recruitment risk:** the potential loss in value if the actual completion or drawdown behaviour from customers deviates from the expected behaviour, which may result in a hedge or funding adjustment at a cost to Barclays Bank UK Group. This risk principally relates to the completion timing around Barclays Bank UK Group's fixed rate mortgage pipeline process.
- **margin compression risk:** the effect of internal or market forces on Barclays Bank UK Group's net margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level.
- **lag risk:** arises from the delay in repricing customer rates for certain variable/managed rate products, following an underlying change to market interest rates. This is typically driven by either regulatory constraint around customer notification on pricing changes, processing time for Barclays Bank UK Group's notification systems or contractual agreements within a product's terms and conditions.
- **asset swap spread risk:** the spread between swap curve and sovereign bond yields that arises from the management of the liquidity buffer investments and its associated hedges.

Furthermore, liquidity buffer investments are generally subject to fair value through other comprehensive income (FVOCI) accounting rules, whereby changes in the value of these assets impact capital via other comprehensive income (OCI), creating volatility in capital directly.

Roles and responsibilities

Risk management oversight and monitoring activities within Barclays Bank UK Group include:

- interest rate risk assessment in the customer banking books and Barclays Bank UK Group Treasury–related exposure
- review and challenge the behavioural assumptions used in hedging and transfer pricing
- risk management of the liquidity buffer investments and funding activities
- monitor risk limits used to manage risk appetite for non-traded market risk.

The Barclays Bank UK PLC Asset and Liability Committee (ALCO), together with the Barclays Group Treasury Committee, are responsible for monitoring and managing IRRBB risk in line with Barclays Bank UK Group's management objectives and risk frameworks. The Barclays UK Risk Committee monitors and reviews the IRRBB risk profile and control environment, providing Second Line oversight of the management of IRRBB risk. The Barclays Bank UK PLC Board Risk Committee reviews the interest rate risk profile, including annual review of the risk appetite and the impact of stress scenarios on the interest rate risk of the Barclays Bank UK Group.

Operational risk

The risk of loss to the firm from inadequate or failed processes, systems, human factors or due to external events (for example, fraud) where the root cause is not due to credit or market risks.

Overview

The management of operational risk has three key objectives:

- Deliver an operational risk capability owned and used by business leaders which is pragmatic, relevant, and enables business leaders to make sound risk decisions over the long term.
- Provide the frameworks and policies to enable management to meet their risk management responsibilities while the second line of defence provides robust, independent, and effective oversight and challenge.
- Deliver a consistent and aggregated measurement of operational risk that will provide clear and relevant insights, so that the right management actions can be taken to keep the operational risk profile consistent with Barclays Bank UK Group's strategy, the stated risk and stakeholder needs.

Following submission of an application to the PRA relating to Barclays Group AMA permission, Barclays Group received PRA's approval to use the Standardised Approach (TSA) for operational risk regulatory capital purposes with effect from 1 April 2018. Barclays Group has conservatively elected to retain its previous operational risk RWA amount unchanged for 2018.

Barclays Bank UK Group is committed to operating within a strong system of internal controls that enables business to be transacted and risk taken without exposing Barclays Bank UK Group to unacceptable potential losses or reputational damages. Barclays Group has an overarching Enterprise Risk Management Framework (ERMF) that sets out the approach to internal governance which Barclays Bank UK Group has adopted.

Organisation and structure

Barclays Bank UK PLC Board Risk Committee

- Reviews Barclays Bank UK Group's operational risk profile, on behalf of the Barclays Bank UK PLC Board
- Considers and recommends Barclays Bank UK Group's risk appetite for operational risk
- Reviews the management of Barclays Bank UK Group's operational risk, supported by feedback from the Barclays Bank UK PLC Board Audit Committee
- Commissions, receives and considers reports on key financial and non-financial risk issues in the Barclays Bank UK Group
- Oversees operational risk capital

Barclays Bank UK PLC Board Audit Committee

- Oversees the operating effectiveness of the control environment
- Oversees remediation of control issues
- Gives feedback to the Barclays Bank UK PLC Board Risk Committee where concerns exist over the impact on residual risk through either the design or operating effectiveness of the control environment

Barclays Group Risk Committee

- Reviews and recommends risk appetite and risk limit across operational risk to the Barclays PLC Board
- Monitors the Barclays Group risk profile and the utilisation of risk appetite
- Reviews appetite, limit usage and risk management within tolerance agreed by the Barclays PLC Board
- Reviews deep dives of specific risks as requested
- Reviews the impact of any material acquisitions and disposals on the risk profile
- Reviews remediation plans and actions taken, and agrees any further action required
- Escalates to Barclays PLC Board level

Barclays UK Risk Committee

- Proposes operational risk appetite to Barclays Bank UK PLC Board Risk Committee and Barclays Group Risk Committee. Reviews and recommends risk limits and/ tolerances to control risk appetite to the Barclays Bank UK PLC Board Risk Committee and Barclays Group Risk Committee
- Monitors the Barclays Bank UK Group risk profile and the utilisation of risk appetite
- Reviews/challenges the effectiveness of the risk and control environment
- Reviews appetite, limit usage and risk management within tolerance agreed by the Barclays Bank UK PLC Board
- Reviews deep dives of specific risks as requested
- Reviews any critical breaches (including dispensations and waivers) against risk policy/ framework or limits and reviews Lessons learnt and their impact on the risk profile
- Reviews remediation plans and actions taken, and agrees any further action required
- Escalates to Barclays Bank UK PLC Board level and Barclays Group Risk Committee

Barclays Bank UK PLC Controls Committee

- Oversees the effectiveness of the controls environment
- Oversees control remediation activities
- Reviews and approves Annual Control Testing Plans for Barclays Bank UK Group
- Oversees the implementation of the Barclays Control Framework across Barclays Bank UK Group
- Requests deep dive presentations relating to the control environment.
- Escalates to Barclays UK Risk Committee and Barclays Group Controls Committee

Barclays Group Controls Committee

- Oversees the effectiveness of the control environment
- Reviews and recommends the control framework
- Oversees control remediation activities
- Oversees the execution of the Operational Risk Management Framework consistently across Barclays Group
- Oversees risk and internal control matters including significant issues
- Escalates to Barclays PLC Board level

Business / Function – Risk and Control Committees

- Manage and oversee the risk and the control environment at the business unit /function level
- Escalate to Barclays Group and Barclays Bank UK Group level

Operational risk comprises a number of specific risk categories defined as follow:

- **Data Management & Information Risk:** The risk that Barclays Bank UK Group's information is not captured, retained, used or protected in accordance with its value and legal and regulatory requirements.
- **Financial Reporting Risk**: The risk of a material misstatement or omission within Barclays Bank UK Group's external financial reporting, regulatory reporting or internal financial management reporting.
- **Fraud Risk**: The risk of financial loss when an internal or external party acts dishonestly with the intent to obtain an undue benefit, cause a loss to, or to expose either Barclays Bank UK Group or its customers and clients to a risk of loss.
- **Payments Process Risk**: The risk of payments being processed inaccurately, with delays or without appropriate authentication and authorisation. It includes payments processes from initiation through to external settlement, including any repairs or amendments.
- **People Risk**: The set of risks associated with employing and managing people, including compliance with regulations, appropriate resourcing for requirements, recruitment and development risks (excluding health and safety related risk).
- **Premises Risk**: The risk of business detriment or harm to people due to premises and infrastructure issues.
- **Physical Security Risk**: The risk of business detriment, financial loss or harm to people as a result of any physical security incident impacting Barclays Bank UK Group or a Barclays Bank UK Group employee - relating to harm to people, unauthorised access, intentional damage to premises or theft or intentional damage to moveable assets.
- **Supplier Risk**: The risk that is introduced as a consequence of obtaining services or goods from another legal entity, or entities, whether external or internal as a result of inadequate selection, inadequate management or inadequate exit management.
- **Tax Risk**: The risk of unexpected tax cost in relation to any tax for which Barclays Bank UK Group is liable, or of reputational damage on tax matters with key stakeholders such as tax authorities, regulators, shareholders or the public. Tax cost includes tax, interest or penalties levied by a taxing authority.
- **Technology Risk**: The risk of dependency on technological solutions and failure to develop, deploy and maintain technology solutions that are stable, reliable and deliver business needs.
- **Transaction Operations Risk**: The risk of customer/client or Barclays Bank UK Group detriment due to unintentional error and/or failure in the end-to-end process of initiation, processing and fulfilment of an interaction between a customer/client and Barclays Bank UK Group with an underlying financial instrument (e.g. mortgage, derivative product, trade product etc.) in consideration.

In addition to the above, operational risk encompasses risks associated with prudential regulation. This includes the risk of failing to: adhere to prudential regulatory requirements, including capital adequacy requirements; provide regulatory submissions; or monitor and manage adherence to new prudential regulatory requirements.

These risks may result in financial and/or non-financial impacts including legal/regulatory breaches or reputational damage.

Barclays Bank UK Group also recognises that there are certain threats/risk drivers that are more thematic and have the potential to impact Barclays Bank UK Group's strategic objectives. These are Enterprise Risk Themes which require an overarching and integrated risk management approach. Including:

- **Cyber:** The potential loss or detriment to Barclays Bank UK Group caused by individuals or groups (threat actors) with the capabilities and intention to cause harm or to profit from attacks committed via network information systems against us, our suppliers, or customers/clients.
- **Data:** Aligned to the Data Strategy of the firm and encompassing Data risks to the firm from multiple risk categories, including Data Management, Data Architecture, Data Security & Protection, Data Resilience, Data Retention and Data Privacy.
- **Execution:** The risk of failing to deliver and implement the agreed initiatives, priorities and business outcomes required to deliver Barclays Bank UK Group's Strategy within agreed timelines.
- **Resilience:** The risk of the organisation's ability to survive and prosper in its commercial endeavours in the presence of adverse events, shocks and chronic or incremental changes.

Roles and responsibilities

The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. The operational risk profile and control environment is reviewed by business management through specific meetings which cover these items. Legal entities, businesses and functions are required to report their operational risks on both a regular and an event-driven basis. The reports include a profile of the material risks that may threaten the achievement of their objectives and the effectiveness of key controls, operational risk events and a review of scenarios.

The Barclays Group Head of Operational Risk is responsible for establishing, owning and maintaining an appropriate Barclays Group-wide Operational Risk Management Framework, meanwhile the Barclays Bank UK PLC Head of Operational Risk is responsible for overseeing the portfolio of operational risk across all businesses.

Operational Risk Management (ORM) acts in a Second Line of Defence capacity, and is responsible for defining and overseeing the implementation of the framework and monitoring Barclays Bank UK Group's operational risk profile. ORM alerts management when risk levels exceed acceptable tolerance in order to drive timely decision making and actions by the first line of defence. Operational risk issues escalated from these meetings are considered through the second line of defence review meetings. Depending on their nature, the outputs of these meetings are presented to the Barclays UK Risk Committee, the Barclays Bank UK PLC Board Risk Committee or the Barclays Bank UK PLC Board Audit Committee.

Specific reports are prepared by the business and Barclays Bank UK Group Operational Risk on a regular basis for the Barclays UK Risk Committee, and the Barclays Bank UK PLC Board Risk Committee.

Model risk

The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.

Overview

Barclays Bank UK Group uses models to support a broad range of activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing, assessing capital adequacy, managing client assets, and meeting reporting requirements.

Since models are imperfect and incomplete representations of reality, they may be subject to errors affecting the accuracy of their output. Model errors can result in inappropriate business decisions being made, financial loss, regulatory risk, reputational risk and/or inadequate capital reporting. Models may also be misused, for instance applied to products that they were not intended for, or not adjusted, where fundamental changes to their environment would justify re-evaluating their core assumptions. Errors and misuse are the primary sources of model risk.

Robust model risk management is crucial to assessing and managing model risk within a defined risk appetite. Strong model risk culture, appropriate technology environment, and adequate focus on understanding and resolving model limitations are crucial components.

Organisation and structure

Barclays allocates substantial resources to identify and record models and their usage, document and monitor the performance of models, validate models and adequately address model limitations. Barclays manages model risk as an enterprise level risk similar to other principal risks.

Barclays Group has a dedicated Model Risk Management (MRM) function that consists of two main units: the Independent Validation Unit (IVU), responsible for model validation and approval, and Model Governance and Controls (MGC), covering model risk governance, controls and reporting, including ownership of model risk policy and the model inventory.

The model risk management framework consists of the model risk policy and standards. The policy prescribes Barclays group-wide, end-to-end requirements for the identification, measurement and management of model risk, covering model documentation, development, implementation, monitoring, annual review, independent validation and approval, change and reporting processes. The policy is supported by global standards covering model inventory, documentation, validation, complexity and materiality, testing and monitoring, overlays, risk appetite, as well as vendor models and stress testing challenger models.

Barclays is continuously enhancing model risk management. The function reports to the Barclays Group CRO and operates a global framework. Implementation of best practice standards is a central objective of Barclays Group. Model risk reporting flows to senior management as depicted below.

Barclays Bank UK PLC Board Risk Committee

- Considers and recommends Barclays Bank UK Group's risk appetite for model risk
- Reviews Barclays Bank UK Group's model risk profile, on behalf of the Barclays Bank UK PLC Board
- Reviews the management of Barclays Bank UK Group's model risk

Barclays UK Risk Committee

- Reviews and recommends to the Barclays Group Risk Committee and Barclays Bank UK PLC Board Risk Committee the proposed model risk appetite for Barclays Bank UK Group
- Reviews and recommend thresholds and/or tolerances to control risk appetite for model risk
- Reviews and monitors the model risk profile of the Barclays Bank UK Group

Barclays Group Risk Committee

- Reviews risk appetite across model risk
- Monitors the Barclays Group risk profile for model risk, including emerging risks, against expected trends, and the utilisation of risk appetite

Barclays Bank UK PLC Model Risk Committee

- Reviews critical updates on model risk e.g. updates on Barclays Bank UK Group-wide remediation plans
- Reviews targeted updates on progress towards meeting regulatory deliverables
- Reviews identified policy breaches

Roles and responsibilities

The key model risk management activities include:

- Correctly identifying models across all relevant areas of Barclays Bank UK Group, and recording models in the Barclays Group Models Database (GMD), the Barclays Group-wide model inventory. The heads of the relevant model ownership areas annually attest to the completeness and accuracy of the model inventory. MGC undertakes regular conformance reviews on the model inventory.
- Enforcing that every model has a model owner who is accountable for the model. The model owner must sign off models prior to submission to IVU for validation. The model owner works with the relevant technical teams (model developers, implementation, monitoring, data services, regulatory) to maintain that the model presented to IVU is and remains fit for purpose.
- Overseeing that every model is subject to validation and approval by IVU, prior to being implemented and on a continual basis. While all models are reviewed and re-approved for continued use each year, the validation frequency and the level of review and challenge applied by IVU is tailored to the materiality and complexity of each model. Validation includes a review of the model assumptions, conceptual

soundness, data, design, performance testing, compliance with external requirements if applicable, as well as any limitations, proposed remediation and overlays with supporting rationale. Material model changes are subject to prioritised validation and approval.

- Defining model risk appetite in terms of risk tolerance, and qualitative metrics which are used to track and report model risk.
- Maintaining specific standards that cover model risk management activities relating to stress testing challenger models, model overlays, vendor models, and model complexity and materiality.

Conduct risk

The risk of detriment to customers, clients, market integrity, effective competition or Barclays from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.

Overview

Barclays Bank UK Group defines, manages and mitigates conduct risk with the goal of providing positive customer and client outcomes, protecting market integrity and promoting effective competition. This includes taking reasonable steps to assure that the Barclays Bank UK Group culture and strategy are appropriately aligned to these goals; its products and services are reasonably designed and delivered to meet the needs of customers and clients; promoting the fair and orderly operation of the markets in which Barclays Bank UK Group does business; and that Barclays Bank UK Group does not commit or facilitate money laundering, terrorist financing, bribery and corruption or breaches of economic sanctions.

Product Lifecycle, Culture and Strategy and Financial Crime are the risk categories within the Barclays Group definition of conduct risk.

Organisation and structure

The governance of conduct risk within Barclays Bank UK Group is fulfilled through management committees and forums operated by the First and Second Lines of Defence with clear escalation and reporting lines to the Barclays Bank UK PLC Board committees.

The Barclays UK Risk Committee is the most senior executive body responsible for reviewing and monitoring the effectiveness of Barclays Bank UK Group's management of conduct risk.

Barclays Bank UK PLC Board Risk Committee

- Reviews the effectiveness of the processes by which Barclays Bank UK Group identifies and manages conduct risk, including annually reviewing the effectiveness of the Barclays Group Conduct Risk Management Framework as it applies to Barclays Bank UK Group;
- Seeks to obtain fair customer outcomes by carrying out periodic reviews of the Barclays Bank UK Group's implementation of policies on customers, clients and counterparties, and by monitoring management reports on issues such as complaint levels, customer satisfaction indicators, net promoter scores and market share measures; and
- Reviews performance against conduct risk metrics

Barclays Bank UK Group Conduct and Reputation Risk Forum (CRRF)

- Oversees the management of Barclays Bank UK Group conduct risk profile as the primary Second Line governance forum
- Oversees the implementation of the Group Conduct Risk Management Framework (CRMF) and Barclays Bank UK Group Conduct Risk Management Framework Addendum
- Oversees existing and emerging conduct risk exposures, risk events and issues

Barclays UK Risk Committee

- Reviews and monitors all material issues which may have potential to incur conduct risk and reports these issues in accordance with the Group Conduct Risk Management Framework and Barclays Bank UK Group Conduct Risk Management Framework Addendum

Barclays Group Risk Committee

- Reviews and monitors the effectiveness of conduct risk management

Roles and responsibilities

The Conduct Risk Management Framework (CRMF) and Barclays Bank UK Group Conduct Risk Management Addendum comprises a number of elements that allow Barclays Bank UK Group to manage and measure its conduct risk profile.

Senior Managers have ownership within their areas for managing conduct risk. These individuals have a Statement of Responsibilities identifying the activities and areas for which they are accountable. The primary responsibility for managing conduct risk and compliance with control requirements sits with the business where the risk arises. The First Line Business Control Committees provide oversight of controls relating to conduct risk.

The Barclays Bank UK PLC Chief Compliance Officer is responsible for owning and maintaining an appropriate Barclays Bank UK Group-wide CRMF addendum for overseeing Barclays Bank UK Group conduct risk management. This includes assessing the appropriateness and owning the relevant conduct risk policies and oversight of the implementation of controls to manage the risk.

Businesses are required to report their conduct risks on both a quarterly and an event-driven basis. The quarterly reports detail conduct risks inherent within the business strategy and include forward looking horizon scanning analysis as well as backward looking evidence-based indicators from both internal and external sources.

The Barclays UK Risk Committee is the primary Second Line governance forum for oversight of conduct risk profile and implementation of the CRMF and associated addendum. The responsibilities of the Barclays UK Risk Committee include approval of the conduct risk tolerance and the business defined key indicators. Additional responsibilities include the identification and discussion of any emerging conduct risks exposures that have been identified.

Reputation risk

The risk that an action, transaction, investment or event will reduce trust in the firm's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

Overview

A reduction in trust in Barclays Bank UK Group's integrity and competence may reduce the attractiveness of Barclays Bank UK Group to customers and clients and other stakeholders and could lead to negative publicity, loss of revenue, regulatory or legislative action, loss of existing and potential client business, reduced workforce morale and difficulties in recruiting talent.

Organisation and structure

The governance of reputation risk within Barclays Bank UK Group is fulfilled through management committees and forums operated by the First and Second Lines of Defence with clear escalation and reporting lines to the Barclays Bank UK PLC Board committees.

The Barclays UK Risk Committee is the most senior executive body responsible for reviewing and monitoring the effectiveness of Barclays Bank UK Group management of reputation risk.

Barclays Bank UK PLC Board Risk Committee

- Reviews the effectiveness of the processes by which Barclays Bank UK Group identifies and manages Reputation Risk;
- Seeks to obtain fair customer outcomes by carrying out periodic reviews of Barclays Bank UK Group's implementation of policies on customers, clients and counterparties and by monitoring management reports on issues such as complaint levels, customer satisfaction indicators, net promoter scores and market share measures; and
- Reviews performance against Reputation Risk metrics.

Barclays Bank UK Group Conduct and Reputation Risk Forum (BUK CRRF)

- Oversees the management of Barclays Bank UK Group reputation risk profile as the primary Second Line governance forum.
- Oversees the implementation of the Barclays Group Reputation Risk Management Framework (RRMF).
- Oversees existing and emerging reputation risk exposures, risk events and issues.

Barclays UK Risk Committee

- Reviews and discusses the Reputation Risk profile of Barclays Bank UK Group and the effectiveness of its risk management, control and escalation, reporting these issues in accordance with the Barclays Group Reputation Risk Management Framework.

Barclays Group Risk Committee

- Reviews the monitoring processes utilized by Compliance and Corporate Relations to ensure they are proportionate given the level of risk identified in the businesses.
- Reports reputation issues in accordance with Barclays Group's Reputation Risk Framework for all material issues which may have the potential to incur reputation risk for Barclays Group.

Roles and responsibilities

The Reputation Risk Management Framework (RRMF) comprises a number of elements that allow Barclays Bank UK Group to manage and measure its reputation risk profile.

Reputation risk is by nature pervasive and can be difficult to quantify, requiring more subjective judgement than many other risks. The RRMF sets out what is required to manage reputation risk effectively.

The Barclays Bank UK PLC Chief Compliance Officer is responsible for owning, maintaining and overseeing Barclays Bank UK Group reputation risk management. This includes assessing the appropriateness and owning the relevant reputation risk policies and oversight of the implementation of controls to manage the risk. The First Line Business Control Committees provide oversight of controls relating to reputation risk.

Barclays Bank UK Group is required to operate within established reputation risk appetite and prepares reports for its Risk and Board Risk Committees highlighting the most significant current and potential reputation risks and issues and how they are being managed.

Legal risk

The risk of loss or imposition of penalties, damages or fines from the failure of the firm to meet its legal obligations including regulatory or contractual requirements.

Overview

Overall, Barclays Bank UK Group has limited tolerance for legal risk, however the multitude of laws and regulations are highly dynamic and their application to particular circumstances is often unclear. This results in a degree of legal risk. The Barclays Group-wide Legal Risk Management Framework (LRMF), which applies to Barclays Bank UK Group, comprises a number of integrated components that allows Barclays Bank UK Group to identify, manage and measure its legal risk profile supported by legal risk policies and associated standards aligned to the following legal risks:

- **contractual arrangements** – failure to engage Barclays' Legal Function in relation to contractual arrangements
- **litigation management** – litigation not being managed by or with the support of Barclays' Legal function
- **intellectual property (IP)** – failure to protect Barclays' IP assets or infringement of third party IP rights
- **competition/anti-trust** – failure to identify and escalate competition/anti-trust issues to Barclays' Legal function or inappropriate interactions with competition/anti-trust authorities
- **use of law firms** – inappropriate instruction of external legal advisors
- **contact with regulators** – inappropriate interactions with regulators or inappropriate handling of confidential supervisory information from regulatory or government agencies
- **legal engagement** – failure to appropriately engage Barclays' Legal function in relation to key business decisions.

Organisation and structure

The Legal Executive Committee oversees, monitors and challenges legal risk across Barclays Group. The Barclays Bank UK PLC Board Risk Committee is the most senior body within Barclays Bank UK Group responsible for reviewing and monitoring the effectiveness or management of risk across Barclays Bank UK Group. Escalation paths also exist to the Barclays Group Risk Committee, which oversees, monitors and challenges the effectiveness of risk management across Barclays Group.

Barclays Bank UK PLC Board Risk Committee
- Reviews risk profile and material risk issues for the Barclays Bank UK Group
- Commissions, receives and considers reports on key risk issues for the Barclays Bank UK Group
- Oversees effectiveness of control environment in the Barclays Bank UK Group

Barclays Group Risk Committee
- Monitors Risk Profile with respect to Non-Financial Risk tolerances
- Debates and agrees actions on the Non-Financial risk profile and risk strategy across Barclays Group
- Considers escalated issues

Barclays Bank UK Group Risk and Control Forums and Committees
- Oversee the risk profile and/or control environment of the relevant Barclays Bank UK Group business areas
- Review conclusions from legal risk and control assessments and emerging risk issues
- Oversee significant risk events and lessons learned assessments

Legal Executive Committee
- Oversees, monitors and challenges, as appropriate, legal risk across the Barclays Group

Roles and responsibilities

The LRMF requires Barclays' businesses and functions to integrate the management of legal risk within their strategic planning and business decision making including managing adherence to the minimum control requirements. The Barclays Bank UK Group businesses are accountable and have primary responsibility for identifying legal risk in their area as well as responsibility for adherence to minimum control requirements and compliance with the LRMF and legal risk policies.

All employees, regardless of their position, business or function or location, must play a part in Barclays Bank UK Group's legal risk management. Employees are responsible for understanding and taking reasonable steps to manage and minimise legal risk that may arise in the context of their individual roles and responsibilities. Employees are required to be familiar with the LRMF and legal risk policies and to know how to escalate actual or potential legal risk issues.

Legal risk management is everyone's responsibility, as part of a risk culture aligned to Barclays' values, promoting transparency and timely escalation and management of risks and issues, supported by clearly defined roles and responsibilities across the Three Lines of Defence.

The Legal Function does not sit in any of the Three Lines of Defence but supports them all. The LRMF details the main activities the Legal Function undertakes to support Barclays Bank UK Group in managing risk, including the identification of issues and risks, coverage with appropriate expertise and escalation. The LRMF, legal risk policies and activities of the Legal Function are designed so that Barclays Bank UK Group receives advice from appropriate legal professionals in circumstances that are most likely to give rise to legal risk.

The Group General Counsel, supported by the Legal Executive Committee and the Global Head of Legal Risk, Governance and Control, is responsible for maintaining an appropriate LRMF, developing non-financial legal risk tolerances and for overseeing legal risk management.

Risk performance

Credit risk

Summary of Contents

Credit risk

The risk of loss to the firm from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the firm, including the whole and timely payment of principal, interest, collateral and other receivables.

All disclosures in this section (pages 49 to 70) are unaudited unless otherwise stated.

Overview

Credit risk represents a significant risk to the Barclays Bank UK Group and mainly arises from exposure to retail and wholesale loans and advances.

IFRS 9 Financial Instruments is effective from 1 January 2018, introducing an expected credit loss model using forward looking information which replaces an incurred loss model. The presentation of credit risk within this risk performance section provides additional disclosures under the new standard. Further detail can be found in the Financial statements section in Note 1 Significant accounting policies and Note 8 Credit impairment charges and other provisions. Descriptions of IFRS 9 terminology can be found in the glossary, available at home.barclays/annualreport.

The acquisition of the UK banking business from Barclays Bank PLC, further details of which can be found in Note 2 Acquisition of business, occurred from 1 April 2018, subsequent to the adoption of IFRS 9 on 1 January 2018. As such, prior to the acquisition, there was no material impact from the adoption of IFRS 9 on Barclays Bank UK PLC as at 1 January 2018. The business transferred during 2018 is reflected in the 'Acquisition of business' note on pages 119 to 121.

Presentation of comparatives (audited)

Across the credit risk analysis section, no comparative tables have been presented for prior year assets totalling £60m, which is broken down as loans and advances at amortised cost (£53m), financial investments (£5m) and other assets (£2m). Given the materiality of these balances, the credit risk analysis is instead presented below.

These assets were not subject to any netting and set off, cash collateral, non-cash collateral or risk transfers. The total asset net exposure was £60m, equal to the maximum exposure. All prior year assets were UK based and industry concentrations were £55m with Banks and £5m with Government and Central Banks. The credit quality of the assets was Strong.

Summary of performance in the period

Credit impairment charges and other provisions for Barclays Bank UK Group totalled £624m in 2018. This included a £100m specific charge in UK cards for the impact of anticipated economic uncertainty in the UK.

Key metrics

£2,927m impairment allowances

Impairment allowances on loans and advances at amortised cost was £2,927m in Barclays Bank UK Group as at 31 December 2018.

Please see the credit risk management section on pages 33 to 35 for details of governance, policies and procedures.

Maximum exposure and effects of netting, collateral and risk transfer

Basis of preparation

The following tables present a reconciliation between the maximum exposure and the net exposure to credit risk, reflecting the financial effects of risk mitigation reducing the exposure.

For financial assets recognised on-balance sheet, the 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 the Barclays Bank UK Group would have to pay if the guarantees were to be called upon. For loan and other credit related commitments, the maximum exposure is the full amount of the committed facilities.

This and subsequent analyses of credit risk exclude other financial assets not subject to credit risk. For off-balance sheet exposures certain contingent liabilities not subject to credit risk such as performance guarantees are excluded.

The Barclays Bank UK Group mitigates the credit risk to which it is exposed through netting and set-off, collateral and risk transfer. Further detail on these forms of credit enhancement is presented on page 35 of the credit risk management section.

Overview

As at 31 December 2018, net exposure to credit risk, after taking into account credit risk mitigation, was £152.4bn. Overall, the extent to which the Barclays Bank UK Group holds mitigation against its total exposure was 51%.

Of the unmitigated on balance sheet exposure, a significant portion relates to cash and balances at central banks which is considered to be lower risk. Further analysis on the credit quality of assets is presented on pages 64 to 68.

Where collateral has been obtained in the event of default, the Barclays Bank UK Group does not, ordinarily, use such assets for its own operations and they are usually sold on a timely basis. The carrying value of assets held as at 31 December 2018, as a result of the enforcement of collateral, was £nil.

Maximum exposure and effects of netting, collateral and risk transfer (audited)

Barclays Bank UK Group As at 31 December 2018	Maximum exposure £m	Netting and set-off £m	Cash Collateral £m	Non-cash Collateral £m	Risk transfer £m	Net exposure £m
On-balance sheet:						
Cash and balances at central banks	40,669	-	-	-	-	40,669
Cash collateral and settlement balances	3,349	-	-	-	-	3,349
Loans and advances at amortised cost:						
Home loans	137,124	-	-	(137,004)	(3)	117
Credit cards, unsecured and other retail lending	22,626	-	(118)	(545)	(24)	21,939
Corporate loans	28,815	-	(2)	(13,189)	(483)	15,141
Total loans and advances at amortised cost	188,565	-	(120)	(150,738)	(510)	37,197
Of which credit-impaired (Stage 3):						
Home loans	*1,238*	-	-	*(1,230)*	-	*8*
Credit cards, unsecured and other retail lending	*604*	-	-	*(1)*	-	*603*
Corporate loans	*1,205*	-	-	*(744)*	-	*461*
Total credit-impaired loans and advances at amortised cost	*3,047*	-	-	*(1,975)*	-	*1,072*
Reverse repurchase agreements and other similar secured lending	1,759	-	-	(1,758)	-	1
Trading portfolio assets:						
Debt securities	151	-	-	-	-	151
Total trading portfolio assets	151	-	-	-	-	151
Financial assets at fair value through the income statement						
Loans and advances	3,880	-	-	(2,092)	(89)	1,699
Total financial assets at fair value through the income statement	3,880	-	-	(2,092)	(89)	1,699
Derivative financial instruments	241	(19)	-	-	-	222
Financial assets at fair value through other comprehensive income	6,710	-	-	-	-	6,710
Other assets	493	-	-	-	-	493
Total on-balance sheet	245,817	(19)	(120)	(154,588)	(599)	90,491
Off-balance sheet:						
Contingent liabilities	910	-	-	-	-	910
Loan Commitments	66,435	-	(35)	(5,266)	(107)	61,027
Total off-balance sheet	67,345	-	(35)	(5,266)	(107)	61,937
Total	313,162	(19)	(155)	(159,854)	(706)	152,428

Off-balance sheet exposures are shown gross of provisions of £54m. See Note 23 for further details.

Maximum exposure and effects of netting, collateral and risk transfer (audited)

Barclays Bank UK PLC As at 31 December 2018	Maximum exposure £m	Netting and set-off £m	Cash Collateral £m	Non-cash Collateral £m	Risk transfer £m	Net exposure £m
On-balance sheet:						
Cash and balances at central banks	40,664	-	-	-	-	40,664
Cash collateral and settlement balances	3,364	-	-	-	-	3,364
Loans and advances at amortised cost:						
Home loans	137,124	-	-	(137,004)	(3)	117
Credit cards, unsecured and other retail lending	22,621	-	(118)	(545)	(24)	21,934
Corporate loans	28,861	-	(2)	(13,189)	(483)	15,187
Total loans and advances at amortised cost	188,606	-	(120)	(150,738)	(510)	37,238
Of which credit-impaired (Stage 3):						
Home loans	*1,238*	-	-	*(1,230)*	-	*8*
Credit cards, unsecured and other retail lending	*604*	-	-	*(1)*	-	*603*
Corporate loans	*1,205*	-	-	*(744)*	-	*461*
Total credit-impaired loans and advances at amortised cost	*3,047*	-	-	*(1,975)*	-	*1,072*
Reverse repurchase agreements and other similar secured lending	1,759	-	-	(1,758)	-	1
Trading portfolio assets:						
Debt securities	151	-	-	-	-	151
Total trading portfolio assets	151	-	-	-	-	151
Financial assets at fair value through the income statement						
Loans and advances	3,880	-	-	(2,092)	(89)	1,699
Total financial assets at fair value through the income statement	3,880	-	-	(2,092)	(89)	1,699
Derivative financial instruments	241	(19)	-	-	-	222
Financial assets at fair value through other comprehensive income	6,710	-	-	-	-	6,710
Other assets	501	-	-	-	-	501
Total on-balance sheet	245,876	(19)	(120)	(154,588)	(599)	90,550
Off-balance sheet:						
Contingent liabilities	910	-	-	-	-	910
Loan commitments	66,435	-	(35)	(5,266)	(107)	61,027
Total off-balance sheet	67,345	-	(35)	(5,266)	(107)	61,937
Total	313,221	(19)	(155)	(159,854)	(706)	152,487

Off-balance sheet exposures are shown gross of provisions of £54m. See Note 23 for further details.

Expected Credit Losses

Loans and advances at amortised cost by product

The tables below present a breakdown of loans and advances at amortised cost and the impairment allowance with stage allocation by asset classification. Barclays does not hold any material purchased or originated credit impaired assets as at year-end.

Barclays Bank UK Group (audited)

As at 31 December 2018	Stage 1	Stage 2 Not past due	Stage 2 <=30 days past due	Stage 2 >30 days past due	Stage 2 Total	Stage 3	Total[a]
Gross exposure	£m	£m	£m	£m	£m	£m	£m
Home loans	118,580	15,009	1,622	715	17,346	1,282	137,208
Credit cards, unsecured loans and other retail lending	16,223	6,881	225	197	7,303	1,682	25,208
Corporate loans	22,950	4,697	45	32	4,774	1,352	29,076
Total	157,753	26,587	1,892	944	29,423	4,316	191,492
Impairment allowance							
Home loans	5	27	4	4	35	44	84
Credit cards, unsecured loans and other retail lending	172	1,201	51	80	1,332	1,078	2,582
Corporate loans	22	85	5	2	92	147	261
Total	199	1,313	60	86	1,459	1,269	2,927
Net exposure							
Home loans	118,575	14,982	1,618	711	17,311	1,238	137,124
Credit cards, unsecured loans and other retail lending	16,051	5,680	174	117	5,971	604	22,626
Corporate loans	22,928	4,612	40	30	4,682	1,205	28,815
Total	157,554	25,274	1,832	858	27,964	3,047	188,565
Coverage ratio	%	%	%	%	%	%	%
Home loans	-	0.2	0.2	0.6	0.2	3.4	0.1
Credit cards, unsecured loans and other retail lending	1.1	17.5	22.7	40.6	18.2	64.1	10.2
Corporate loans	0.1	1.8	11.1	6.3	1.9	10.9	0.9
Total	0.1	4.9	3.2	9.1	5.0	29.4	1.5

Barclays Bank UK PLC (audited)

As at 31 December 2018	Stage 1	Stage 2 Not past due	Stage 2 <=30 days past due	Stage 2 >30 days past due	Stage 2 Total	Stage 3	Total[a]
Gross exposure	£m	£m	£m	£m	£m	£m	£m
Home loans	118,580	15,009	1,622	715	17,346	1,282	137,208
Credit cards, unsecured loans and other retail lending	16,222	6,881	225	197	7,303	1,678	25,203
Corporate loans	22,996	4,697	45	32	4,774	1,352	29,122
Total	157,798	26,587	1,892	944	29,423	4,312	191,533
Impairment allowance							
Home loans	5	27	4	4	35	44	84
Credit cards, unsecured loans and other retail lending	172	1,201	51	80	1,332	1,078	2,582
Corporate loans	22	85	5	2	92	147	261
Total	199	1,313	60	86	1,459	1,269	2,927
Net exposure							
Home loans	118,575	14,982	1,618	711	17,311	1,238	137,124
Credit cards, unsecured loans and other retail lending	16,050	5,680	174	117	5,971	600	22,621
Corporate loans	22,974	4,612	40	30	4,682	1,205	28,861
Total	157,599	25,274	1,832	858	27,964	3,043	188,606
Coverage ratio	%	%	%	%	%	%	%
Home loans	-	0.2	0.2	0.6	0.2	3.4	0.1
Credit cards, unsecured loans and other retail lending	1.1	17.5	22.7	40.6	18.2	64.2	10.2
Corporate loans	0.1	1.8	11.1	6.3	1.9	10.9	0.9
Total	0.1	4.9	3.2	9.1	5.0	29.4	1.5

Note
a Other financial assets subject to impairment not included in the table above include cash collateral and settlement balances, financial assets at fair value through other comprehensive income, accrued income and sundry debtors. These have a total gross exposure of £10.6bn, including £10.4bn in Stage 1, and an impairment allowance of £1m.

Movement in gross exposures and impairment allowance including provisions for loan commitments and financial guarantees (audited)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument including loan commitments and financial guarantees. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8 on page 125.

Gross exposure for loans and advances at amortised cost (audited)

Barclays Bank UK Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	53	-	-	53
Acquisition of business from Barclays Bank PLC	155,581	27,978	4,202	187,761
Net transfers between stages	(3,612)	2,593	1,019	-
Business activity in the year	21,955	1,030	252	23,237
Net drawdowns and repayments	(7,770)	(629)	10	(8,389)
Final repayments	(8,454)	(1,549)	(417)	(10,420)
Disposals	-	-	(315)	(315)
Write-offs	-	-	(435)	(435)
As at 31 December 2018	157,753	29,423	4,316	191,492

Impairment allowance on loans and advances at amortised cost (audited)

Barclays Bank UK Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	168	1,490	1,278	2,936
Net transfers between stages	133	(186)	53	-
Business activity in the year	32	59	38	129
Net re-measurement and movement due to exposure and risk parameter changes	(124)	39	731	646
UK economic uncertainty adjustment	-	100	-	100
Final repayments	(10)	(43)	(81)	(134)
Disposals	-	-	(315)	(315)
Write-offs	-	-	(435)	(435)
As at 31 December 2018[a]	199	1,459	1,269	2,927

Reconciliation of ECL movement to impairment charge/(release) for the period	
ECL movement excluding assets derecognised due to disposals and write-offs	741
Net recoveries post write-offs	(93)
Exchange and other adjustments	10
Impairment release on loan commitments and financial guarantees	(33)
Impairment charge on other financial assets[a]	(1)
Income statement charge/(release) for the period	624

Note
a Other financial assets subject to impairment not included in the table above include cash collateral and settlement balances, financial assets at fair value through other comprehensive income, accrued income and sundry debtors. These have a total gross exposure of £10.6bn, including £10.4bn in Stage 1, and an impairment allowance of £1m.

Net transfers between stages represents the movements of positions from, for example, Stage 1 to Stage 2 following a Significant Increase in Credit Risk (SICR) or to Stage 3 as positions move into default. Equally, improvement in credit quality will result in positions moving to lower stages. These are the primary driver for the changes in impairment allowance and the income statement charge. Disposals includes debt sale activity and Write-offs represent the gross asset write-down during the period.

During the period, gross exposure on loans and advances at amortised cost has increased by £3.7bn following the acquisition of business from Barclays Bank PLC due to new lending net of repayments and redemptions in the Home Loans portfolio, whilst the impairment allowance decreased by £9m including a £100m charge in UK Cards from anticipated economic uncertainty in the UK. Credit quality and underlying arrears rates in the retail portfolio have been relatively stable over the period.

Gross exposure for loan commitments and financial guarantees (audited)

Barclays Bank UK Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	60,848	6,113	294	67,255
Net transfers between stages	(995)	1,025	(30)	-
Business activity in the year	1,249	62	-	1,311
Net drawdowns and repayments	2,332	(1,203)	89	1,218
Final repayments	(2,037)	(311)	(91)	(2,439)
As at 31 December 2018	61,397	5,686	262	67,345

Impairment allowance on loan commitments and financial guarantees (audited)

Barclays Bank UK Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	36	51	-	87
Net re-measurement and movement due to exposure and risk parameter changes	(26)	(7)	-	(33)
As at 31 December 2018	10	44	-	54

Gross exposure for loans and advances at amortised cost (audited)

Barclays Bank UK PLC	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	33	-	-	33
Acquisition of business from Barclays Bank PLC	155,647	27,978	4,196	187,821
Net transfers between stages	(3,612)	2,593	1,019	-
Business activity in the year	21,897	1,030	252	23,179
Net drawdowns and repayments	(7,713)	(629)	7	(8,335)
Final repayments	(8,454)	(1,549)	(414)	(10,417)
Disposals	-	-	(315)	(315)
Write-offs	-	-	(433)	(433)
As at 31 December 2018	157,798	29,423	4,312	191,533

Impairment allowance on loans and advances at amortised cost (audited)

Barclays Bank UK PLC	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	168	1,490	1,278	2,936
Net transfers between stages	133	(186)	53	-
Business activity in the year	32	59	38	129
Net re-measurement and movement due to exposure and risk parameter changes	(124)	38	729	643
UK economic uncertainty adjustment	-	100	-	100
Final repayments	(10)	(42)	(81)	(133)
Disposals	-	-	(315)	(315)
Write-offs	-	-	(433)	(433)
As at 31 December 2018[a]	199	1,459	1,269	2,927

Reconciliation of ECL movement to impairment charge/(release) for the period	
ECL movement excluding assets derecognised due to disposals and write-offs	739
Net recoveries post write-offs	(93)
Exchange and other adjustments	9
Impairment release on loan commitments and financial guarantees	(33)
Income statement charge/(release) for the period	622

Note
a Other financial assets subject to impairment not included in the table above include cash collateral and settlement balances, financial assets at fair value through other comprehensive income, accrued income and sundry debtors. These have a total gross exposure of £10.6bn, including £10.4bn in Stage 1, and an impairment allowance of £1m.

Gross exposure for loan commitments and financial guarantees (audited)

Barclays Bank UK PLC	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	60,848	6,113	294	67,255
Net transfers between stages	(995)	1,025	(30)	-
Business activity in the year	1,249	62	-	1,311
Net drawdowns and repayments	2,332	(1,203)	89	1,218
Final repayments	(2,037)	(311)	(91)	(2,439)
As at 31 December 2018	61,397	5,686	262	67,345

Impairment allowance on loan commitments and financial guarantees (audited)

Barclays Bank UK PLC	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2018	-	-	-	-
Acquisition of business from Barclays Bank PLC	36	51	-	87
Net re-measurement and movement due to exposure and risk parameter changes	(26)	(7)	-	(33)
As at 31 December 2018	10	44	-	54

Stage 2 decomposition[a]		
As at 31 December 2018	Net exposure £m	ECL £m
Quantitative test	18,919	1,389
Qualitative test	8,817	65
30 dpd backstop	228	5
Total Stage 2	**27,964**	**1,459**

Note
a Where balances satisfy more than one of the above three criteria for determining a significant increase in credit risk, the corresponding net exposure and ECL has been assigned in order of categories presented.

Stage 2 exposures are predominantly identified using quantitative tests where the lifetime PD has deteriorated more than a pre-determined amount since origination. This is augmented by inclusion of accounts meeting the designated high risk criteria (including watchlist) for the portfolio under the qualitative test. A small number of other accounts (0.3% of impairment allowances and 0.8% of net exposure) are included in Stage 2. These accounts are not otherwise identified by the quantitative or qualitative tests but are more than 30 days past due. The percentage triggered by these backstop criteria is a measure of the effectiveness of the Stage 2 criteria in identifying deterioration prior to delinquency.

For further detail on the three criteria for determining a significant increase in credit risk required for Stage 2 classification, refer to Note 8 on page 125.

Management adjustments to models for impairment (audited)

Management adjustments to impairment models are applied in order to factor in certain conditions or changes in policy that are not incorporated into the relevant impairment models, or to reflect additionally known facts and circumstances at the period end. Where applicable, management adjustments are reviewed and incorporated into future model development.

Adjustments in portfolios that have total management adjustments to impairment allowance of more than £10m are presented by product below.

During 2018, our models have continued to develop and the number of adjustments that were required on IFRS 9 adoption have been incorporated in our impairment modelling.

Portfolios that have management adjustments greater than £10m by product[a] (audited)		
	As at 31 December 2018	
	Management adjustments to impairment allowances, including forbearance £m	Proportion of total impairment allowances %
Home loans	54	64.3
Credit cards, unsecured loans and other retail lending	394	15.3
Corporate loans	4	1.5

Note
a Positive values relate to an increase in impairment allowance.

Home loans: Due to the high quality nature of the portfolio, ECL estimates are low in all but the most severe scenarios. Adjustment is held to maintain an appropriate level of ECL.

Credit cards, unsecured loans and other retail lending: Model related adjustments to maintain adequacy of Loss Given Default estimates and retail staging criteria updates during the year. This also includes a £100m ECL adjustment held in UK cards for the impact of anticipated economic uncertainty in the UK.

Corporate loans: Adjustments raised to maintain appropriate staging allocation for a small number of facilities.

Measurement uncertainty and sensitivity analysis

The measurement of ECL involves increased complexity and judgement, including estimation of probabilities of default (PD), loss given default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default (EAD) and assessing significant increases in credit risk. Impairment charges will tend to be more volatile than under IAS 39 and will be recognised earlier. Unsecured products with longer expected lives, such as revolving credit cards, are the most impacted.

Barclays Bank UK Group uses a five-scenario model to calculate ECL. An external consensus forecast is assembled from key sources, including HM Treasury, Bloomberg and the Urban Land Institute, which forms the Baseline scenario. In addition, two adverse scenarios (Downside 1 and Downside 2) and two favourable scenarios (Upside 1 and Upside 2) are derived, with associated probability weightings. The adverse scenarios are calibrated to a similar severity to internal stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity. Downside 2 is benchmarked to the Bank of England's annual cyclical scenarios and to the most severe scenario from Moody's inventory, but is not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include three economic core variables, (GDP, unemployment and House Price Index (HPI) in the UK market), and expanded variables using statistical models based on historical correlations. All five scenarios converge to a steady state after 8 years.

Scenario weights (audited)

The methodology for estimating probability weights for each of the scenarios involves a comparison of the distribution of key historical UK and US macroeconomic variables against the forecast paths of the five scenarios. The methodology works such that the Baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the Baseline; the further from the Baseline, the smaller the weight. The probability weights of the scenarios as of 31 December 2018 are shown below. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The same scenarios and weights that are used in the estimation of expected credit losses are also used for Barclays Group internal planning purposes. The impacts across the portfolios are different because of the sensitivities of each of the portfolios to specific macroeconomic variables, for example, mortgages are highly sensitive to house prices and base rates, credit cards and unsecured consumer loans are highly sensitive to unemployment.

The table below shows the core macroeconomic variables for each scenario and the respective scenario weights.

Scenario probability weighting

As at 31 December 2018	Upside 2 %	Upside 1 %	Baseline %	Downside 1 %	Downside 2 %
Scenario probability weighting	9	24	41	23	3

Macroeconomic variables

As at 31 December 2018	Upside 2 %	Upside 1 %	Baseline %	Downside 1 %	Downside 2 %
UK GDP[a]	4.5	3.1	1.7	0.3	(4.1)
UK unemployment[b]	3.4	3.9	4.3	5.7	8.8
UK HPI[c]	46.4	32.6	3.2	(0.5)	(32.1)

Notes
a Highest annual growth in Upside scenarios; 5-year average in Baseline; lowest annual growth in Downside scenarios.
b Lowest point in Upside scenarios; 5-year average in Baseline; highest point in Downside scenarios.
c 5-year cumulative growth in Upside scenarios; 5-year average in Baseline; cumulative fall (peak-to-trough) in Downside scenarios.

ECL under 100% weighted scenarios for key principal portfolios (audited)

The table on the next page shows the ECL for key principal portfolios assuming scenarios have been 100% weighted. Gross exposures are allocated to a stage based on the individual scenario rather than through a probability-weighted approach as is required for Barclays Bank UK Group's reported impairment allowances. As a result, it is not possible to back solve the weighted ECL from the individual scenarios as a balance may be assigned to a different stage dependent on the scenario.

Certain less material portfolios and exposures where ECL estimation methods are based on benchmark approaches or assigned proxy coverage ratios, have been excluded from the below analysis. Material post-model adjustments have also been excluded so that the scenario specific results are comparable. Portfolio adjustments of greater than £10m can be found on page 57.

Balances allocated to Stage 3 do not change in any of the scenarios as the transition criteria relies only on observable evidence of default as at 31 December 2018 and not on macroeconomic scenarios.

The Downside 2 scenario represents severe global recession with a substantial fall in UK GDP. Unemployment in the UK market rises towards 9% and there is a substantial fall in asset prices including housing.

Under the Downside 2 scenario, balances moved between stages as the economic environment weakens. This can be seen in the movement of £8.6bn of gross exposure into Stage 2 between the Weighted and Downside 2 scenario. ECL increases in Stage 2 predominately due to unsecured portfolios as economic conditions deteriorate.

As at 31 December 2018	Scenarios					
	Weighted	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
Stage 1 Gross Exposure (£m)						
Home loans	115,573	116,814	116,402	115,924	114,858	109,305
Credit cards, unsecured loans and other retail lending	15,095	15,759	15,453	15,099	14,783	12,759
Stage 1 ECL (£m)						
Home loans	1	-	-	-	1	9
Credit cards, unsecured loans and other retail lending	147	136	141	146	153	157
Stage 1 Coverage (%)						
Home loans	-	-	-	-	-	-
Credit cards, unsecured loans and other retail lending	1.0	0.9	0.9	1.0	1.0	1.2
Stage 2 Gross Exposure (£m)						
Home loans	17,455	16,214	16,627	17,105	18,170	23,724
Credit cards, unsecured loans and other retail lending	6,859	6,196	6,502	6,856	7,171	9,195
Stage 2 ECL (£m)						
Home loans	7	1	1	3	7	172
Credit cards, unsecured loans and other retail lending	1,076	850	949	1,068	1,220	1,952
Stage 2 Coverage (%)						
Home loans	-	-	-	-	-	0.7
Credit cards, unsecured loans and other retail lending	15.7	13.7	14.6	15.6	17.0	21.2
Stage 3 Gross Exposure (£m)						
Home loans	1,104	1,104	1,104	1,104	1,104	1,104
Credit cards, unsecured loans and other retail lending	1,603	1,603	1,603	1,603	1,603	1,603
Stage 3 ECL (£m)						
Home loans	6	3	4	5	7	27
Credit cards, unsecured loans and other retail lending	1,019	986	1,000	1,018	1,045	1,090
Stage 3 Coverage (%)						
Home loans	0.5	0.3	0.4	0.5	0.6	2.4
Credit cards, unsecured loans and other retail lending	63.6	61.5	62.4	63.5	65.2	68.0
Total ECL (£m)						
Home loans	14	4	5	8	15	208
Credit cards, unsecured loans and other retail lending	2,242	1,971	2,090	2,232	2,418	3,199

For the portfolios in scope, the total weighted ECL represents a 1% uplift from the Baseline ECL, largely driven by credit card losses which have more linear loss profiles than home loans.

Home loans: Total ECL and coverage ratios remain steady across the upside scenarios, Baseline and Downside 1 scenario. However, total ECL increases significantly in Downside 2 scenario to £208m, driven by a significant fall in HPI (32.1%) reflecting the non-linearity of the portfolio. The average LTV of the home loans portfolio remains low and as such can withstand a Downside scenario (0.5% fall in HPI) without a significant increase in ECL. Total weighted ECL excludes a £54m model adjustment that is held to maintain appropriate level of ECL.

Credit cards, unsecured loans and other retail finding: Total weighted ECL of £2,242m represents a 0.4% increase over the Baseline ECL (£2,232m) reflecting the range of economic scenarios used. Total ECL increases to £3,199m under Downside 2 scenario, mainly driven by Stage 2, where coverage rate increase by 550bps to 21.2% from a Weighted scenario approach (15.7%) and a £2,336m increase in gross exposure that meets the significant increase in credit risk (SICR) criteria and transition from Stage 1 to Stage 2. Total weighted ECL excludes model adjustments, including the £100m adjustment for anticipated UK economic uncertainty.

Staging sensitivity (audited)

An increase of 1% (£1,915m) of total gross exposure into Stage 2 (from Stage 1), would result in an increase in ECL impairment allowance of £94m based purely on applying the difference in Stage 2 and Stage 1 average impairment coverage ratios to the movement in gross exposure (refer to loans and advances at amortised cost by product on page 53).

ECL sensitivity analysis to UK economic forecasts for key principal portfolios

The table on page 60 shows the estimated ECL impact on key principal portfolios in the event that the UK consensus was instead for i) positive growth (Upward scenario); and ii) a mild downturn (Downward scenario). These scenarios assume a moderate upturn and downturn for the UK but with no contagion or headwinds in other economies.

The gross exposures in scope are aligned to those presented in the ECL under 100% weighted scenarios sensitivity analysis but based on portfolio positions as at 30 September 2018 due to operational complexity in scenario regeneration. The portfolios included in the scenario remain broadly stable during Q4 2018 and therefore the scenario results are considered representative of the year end position. Material post-model adjustments have been excluded from the below analysis to allow the scenario specific results to be comparable. Further detail on management adjustments to impairment allowances can be found on page 57.

Gross exposures allocated to Stage 3 do not change in any of the scenarios as the transition criteria relies only on observable evidence of default and not on macroeconomic scenarios.

The table below shows the estimated ECL impact on key principal portfolios for both a positive growth (Upward scenario) and a downturn (Downward scenario). The inputs for the Downward scenario have been modelled by replacing the Baseline macroeconomic variables with the Downside 1 variables (with no changes to US and other non-UK macroeconomic variables, as highlighted below). Similarly, the Upward scenario uses Upside 1 UK macroeconomic variables for the Baseline scenario. The Downside 2, Downside 1, Upside 1 and Upside 2 macroeconomic variables are held constant but the probability weights have been recalibrated. Changes in credit cards, unsecured loans and other retail lending are measured for UK cards and UK personal loans only.

Barclays Bank UK Group impairment includes an adjustment of £100m representing a charge for the estimated impact of current anticipated economic uncertainty in the UK. This adjustment was estimated broadly on the output of the UK Downward scenario.

Scenario probability weighting

	Upside 2 %	Upside 1 %	Baseline %	Downside 1 %	Downside 2 %
UK Upward scenario	18	33	36	11	2
UK Downward scenario	8	18	40	28	6

Macroeconomic variables

As at 31 December 2018	Upside 2 %	Upside 1 %	Baseline %	Downside 1 %	Downside 2 %
UK Upward scenario					
UK GDP	4.5	3.1	3.1	0.3	(4.1)
UK unemployment	3.4	3.9	3.9	5.7	8.8
UK HPI	46.4	32.6	32.6	(0.5)	(32.1)
UK Downward scenario					
UK GDP	4.5	3.1	0.3	0.3	(4.1)
UK unemployment	3.4	3.9	5.7	5.7	8.8
UK HPI	46.4	32.6	(0.5)	(0.5)	(32.1)

Sensitivity to UK economic forecasts

	Stage 1		Stage 2		Stage 3		Total	
	Δ UK Upward scenario	Δ UK Downward scenario	Δ UK Upward scenario	Δ UK Downward scenario	Δ UK Upward scenario	Δ UK Downward scenario	Δ UK Upward scenario	Δ UK Downward scenario
Gross Exposure (£m)								
Home loans	506	(889)	(506)	889	-	-	-	-
Credit cards, unsecured loans and other retail lending	294	(252)	(294)	252	-	-	-	-
ECL (£m)								
Home loans	-	-	(3)	6	(1)	2	(4)	8
Credit cards, unsecured loans and other retail lending	(4)	4	(102)	104	(15)	15	(121)	123

Home loans: Total ECL increases by £8m in the Downward scenario, driven by the increase in the probability weight attributed to the Downside 2 scenario. This represents a greater likelihood of the UK economy entering into a severe downturn than under the current consensus.

Credit cards, unsecured loans and other retail lending: Total ECL decreases by £121m in the Upward scenario driven by £294m of balance migration as assets transition from Stage 2 to Stage 1 and lower coverage on Stage 2 assets (83bp decrease) driven by the more favourable consensus forecast. Total ECL increases by £123m in the Downward scenario, mainly driven by the UK cards portfolio.

Analysis of the concentration of credit risk

A concentration of credit risk exists when a number of counterparties are located in a common 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. Barclays Bank UK 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.

Geographic concentrations

As at 31 December 2018, the geographic concentration of Barclays Bank UK Group's asset exposure is concentrated in the UK 93%, Europe 6% and in the Americas 1%.

Credit risk concentrations by geography (audited)

Barclays Bank UK Group As at 31 December 2018	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
On-balance sheet:						
Cash and balances at central banks	25,192	15,477	-	-	-	40,669
Cash collateral and settlement balances	3,284	7	-	-	58	3,349
Loans and advances at amortised cost	186,887	429	515	376	358	188,565
Reverse repurchase agreements and other similar secured lending	1,649	16	94	-	-	1,759
Trading portfolio assets	150	1	-	-	-	151
Financial assets at fair value through the income statement	3,880	-	-	-	-	3,880
Derivative financial instruments	241	-	-	-	-	241
Financial assets at fair value through other comprehensive income	1,964	1,752	2,994	-	-	6,710
Other assets	493	-	-	-	-	493
Total on-balance sheet	223,740	17,682	3,603	376	416	245,817
Off-balance sheet:						
Contingent liabilities	910	-	-	-	-	910
Loan commitments	66,261	77	45	16	36	66,435
Total off-balance sheet	67,171	77	45	16	36	67,345
Total	290,911	17,759	3,648	392	452	313,162

Credit risk concentrations by geography (audited)

Barclays Bank UK PLC As at 31 December 2018	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
On-balance sheet:						
Cash and balances at central banks	25,187	15,477	-	-	-	40,664
Cash collateral and settlement balances	3,299	7	-	-	58	3,364
Loans and advances at amortised cost	186,928	429	515	376	358	188,606
Reverse repurchase agreements and other similar secured lending	1,649	16	94	-	-	1,759
Trading portfolio assets	150	1	-	-	-	151
Financial assets at fair value through the income statement	3,880	-	-	-	-	3,880
Derivative financial instruments	241	-	-	-	-	241
Financial assets at fair value through other comprehensive income	1,964	1,752	2,994	-	-	6,710
Other assets	501	-	-	-	-	501
Total on-balance sheet	223,799	17,682	3,603	376	416	245,876
Off-balance sheet:						
Contingent liabilities	910	-	-	-	-	910
Loan commitments	66,261	77	45	16	36	66,435
Total off-balance sheet	67,171	77	45	16	36	67,345
Total	290,970	17,759	3,648	392	452	313,221

Industry concentrations

As at 31 December 2018, total assets concentrated in home loans is 46% and cards, unsecured loans and other personal is 25%. The proportion of the overall balance concentrated towards governments and central banks is 18%, predominantly within cash and balances at central banks.

Credit risk concentrations by industry (audited)

Barclays Bank UK Group As at 31 December 2018	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 distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	40,669	-	-	-	-	-	-	40,669
Cash collateral and settlement balances	525	60	-	-	2,764	-	-	-	-	-	-	3,349
Loans and advances at amortised cost	443	1,661	396	10,433	6,999	71	1,931	2,494	137,124	22,480	4,533	188,565
Reverse repurchase agreements and other similar secured lending	1,063	696	-	-	-	-	-	-	-	-	-	1,759
Trading portfolio assets	-	-	-	-	151	-	-	-	-	-	-	151
Financial assets at fair value through the income statement	-	-	-	3,543	36	-	-	297	-	-	4	3,880
Derivative financial instruments	140	82	-	19	-	-	-	-	-	-	-	241
Financial assets at fair value through other comprehensive income	1,068	370	-	-	5,272	-	-	-	-	-	-	6,710
Other assets	452	41	-	-	-	-	-	-	-	-	-	493
Total on-balance sheet	3,691	2,910	396	13,995	55,891	71	1,931	2,791	137,124	22,480	4,537	245,817
Off-balance sheet:												
Contingent liabilities	-	-	-	-	910	-	-	-	-	-	-	910
Loan commitments	2	26	152	2,083	-	11	439	440	7,490	54,859	933	66,435
Total off-balance sheet	2	26	152	2,083	910	11	439	440	7,490	54,859	933	67,345
Total	3,693	2,936	548	16,078	56,801	82	2,370	3,231	144,614	77,339	5,470	313,162

Credit risk concentrations by industry (audited)

Barclays Bank UK PLC As at 31 December 2018	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 distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	40,664	-	-	-	-	-	-	40,664
Cash collateral and settlement balances	540	60	-	-	2,764	-	-	-	-	-	-	3,364
Loans and advances at amortised cost	83	2,067	396	10,433	6,999	71	1,931	2,494	137,124	22,475	4,533	188,606
Reverse repurchase agreements and other similar secured lending	1,063	696	-	-	-	-	-	-	-	-	-	1,759
Trading portfolio assets	-	-	-	-	151	-	-	-	-	-	-	151
Financial assets at fair value through the income statement	-	-	-	3,543	36	-	-	297	-	-	4	3,880
Derivative financial instruments	22	200	-	19	-	-	-	-	-	-	-	241
Financial assets at fair value through other comprehensive income	1,068	370	-	-	5,272	-	-	-	-	-	-	6,710
Other assets	463	38	-	-	-	-	-	-	-	-	-	501
Total on-balance sheet	3,224	3,446	396	13,995	55,886	71	1,931	2,791	137,124	22,475	4,537	245,876
Off-balance sheet:												
Contingent liabilities	-	-	-	-	910	-	-	-	-	-	-	910
Loan commitments	2	26	152	2,083	-	11	439	440	7,490	54,859	933	66,435
Total off-balance sheet	2	26	152	2,083	910	11	439	440	7,490	54,859	933	67,345
Total	3,226	3,472	548	16,078	56,796	82	2,370	3,231	144,614	77,334	5,470	313,221

Approach to management and representation of credit quality

Asset credit quality

The credit quality distribution is based on the IFRS 9 12-month probability of default (PD) at the reporting date.

The Barclays Bank UK Group uses the following internal measures to determine credit quality for loans:

Default Grade	Retail and Wholesale lending Probability of default	Credit Quality Description
1-3	0.0 to < 0.05%	Strong
4-5	0.05 to < 0.15%	
6-8	0.15 to < 0.30%	
9-11	0.30 to < 0.60%	
12-14	0.60 to < 2.15%	Satisfactory
15-19	2.15 to < 11.35%	
20-21	11.35% to < 100%	Higher Risk
22	100%	Credit Impaired

For retail clients, a range of analytical tools are used to derive the probability of default of clients at inception and on an ongoing basis.

These credit quality 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, of no cause for concern to the Barclays Bank UK Group, the asset may not be collateralised, or may relate to unsecured retail facilities. At the lower end of this grade there are customers that are being more carefully monitored, for example, corporate customers which are indicating some evidence of deterioration, mortgages with a high loan to value, and unsecured retail loans operating outside normal product guidelines.

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 the 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.

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 Barclays Bank UK Group mainly uses external credit ratings provided by Standard & Poor's, Fitch or Moody's. Where such ratings are not available or are not current, the Barclays Bank UK Group will use its own internal ratings for the securities.

Balance sheet credit quality

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

Overview

As at 31 December 2018, the ratio of the Barclays Bank UK Group's on-balance sheet assets classified as strong (0.0 < 0.60%) at 87% of total assets exposed to credit risk.

Balance sheet credit quality (audited)

Barclays Bank UK Group	PD Range	0.0 to <0.60%	0.60 to <11.35%	11.35% to 100%	Total	0.0 to <0.60%	0.60 to <11.35%	11.35% to 100%	Total
As at 31 December 2018		£m	£m	£m	£m	%	%	%	%
Cash and balances at central banks		40,669	-	-	40,669	100	-	-	100
Cash collateral and settlement balances		3,349	-	-	3,349	100	-	-	100
Loans and advances at amortised cost									
Home loans		128,455	6,482	2,187	137,124	93	5	2	100
Credit cards, unsecured and other retail lending		6,880	14,175	1,571	22,626	30	63	7	100
Corporate loans		20,323	6,544	1,948	28,815	70	23	7	100
Total loans and advances at amortised cost		155,658	27,201	5,706	188,565	83	14	3	100
Reverse repurchase agreements and other similar secured lending		1,759	-	-	1,759	100	-	-	100
Trading portfolio assets:									
Debt securities		151	-	-	151	100	-	-	100
Total trading portfolio assets		151	-	-	151	100	-	-	100
Financial assets at fair value through the income statement:									
Loans and advances		3,690	186	4	3,880	95	5	-	100
Total financial assets at fair value through the income statement		3,690	186	4	3,880	95	5	-	100
Derivative financial instruments		241	-	-	241	100	-	-	100
Financial assets at fair value through other comprehensive income- debt securities		6,710	-	-	6,710	100	-	-	100
Other assets		482	11	-	493	98	2	-	100
Total on-balance sheet		212,709	27,398	5,710	245,817	87	11	2	100

Risk performance

Credit risk

Balance sheet credit quality (audited)

Barclays Bank UK PLC As at 31 December 2018	PD Range	0.0 to <0.60% £m	0.60 to <11.35% £m	11.35% to 100% £m	Total £m	0.0 to <0.60% %	0.60 to <11.35% %	11.35% to 100% %	Total %
Cash and balances at central banks		40,664	-	-	40,664	100	-	-	100
Cash collateral and settlement balances		3,364	-	-	3,364	100	-	-	100
Loans and advances at amortised cost									
Home loans		128,455	6,482	2,187	137,124	93	5	2	100
Credit cards, unsecured and other retail lending		6,880	14,174	1,567	22,621	30	63	7	100
Corporate loans		20,369	6,544	1,948	28,861	70	23	7	100
Total loans and advances at amortised cost		155,704	27,200	5,702	188,606	83	14	3	100
Reverse repurchase agreements and other similar secured lending		1,759			1,759	100	-	-	100
Trading portfolio assets:									
Debt securities		151	-	-	151	100	-	-	100
Total trading portfolio assets		151			151	100	-	-	100
Financial assets at fair value through the income statement:									
Loans and advances		3,690	186	4	3,880	95	5	-	100
Total financial assets at fair value through the income statement		3,690	186	4	3,880	95	5	-	100
Derivative financial instruments		241	-	-	241	100	-	-	100
Financial assets at fair value through other comprehensive income- debt securities		6,710	-	-	6,710	100	-	-	100
Other assets		501	-	-	501	100	-	-	100
Total on-balance sheet		212,784	27,386	5,706	245,876	87	11	2	100

Credit exposures by internal PD grade

Credit risk profile by internal PD grade for loans and advances at amortised cost (audited)

Barclays Bank UK Group Credit quality description	PD range	Gross carrying amount Stage 1	Gross carrying amount Stage 2	Gross carrying amount Stage 3	Gross carrying amount Total	Allowance for ECL Stage 1	Allowance for ECL Stage 2	Allowance for ECL Stage 3	Allowance for ECL Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	144,405	11,333	-	155,738	40	40	-	80	155,658	0.1
Satisfactory	0.60 to < 11.35%	13,254	15,016	-	28,270	152	917	-	1,069	27,201	3.8
Higher Risk	11.35% to < 100%	94	3,074	-	3,168	7	502	-	509	2,659	16.1
Credit Impaired	100%	-	-	4,316	4,316	-	-	1,269	1,269	3,047	29.4
Total		157,753	29,423	4,316	191,492	199	1,459	1,269	2,927	188,565	1.5

Credit risk profile by internal PD grade for contingent liabilities (audited)

Barclays Bank UK Group Credit quality description	PD range	Gross carrying amount Stage 1	Gross carrying amount Stage 2	Gross carrying amount Stage 3	Gross carrying amount Total	Allowance for ECL Stage 1	Allowance for ECL Stage 2	Allowance for ECL Stage 3	Allowance for ECL Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	910	-	-	910	-	-	-	-	910	-
Satisfactory	0.60 to < 11.35%	-	-	-	-	-	-	-	-	-	-
Higher Risk	11.35% to < 100%	-	-	-	-	-	-	-	-	-	-
Credit Impaired	100%	-	-	-	-	-	-	-	-	-	-
Total		910	-	-	910	-	-	-	-	910	-

Credit risk profile by internal PD grade for loan commitments (audited)

Barclays Bank UK Group Credit quality description	PD range	Gross carrying amount Stage 1	Gross carrying amount Stage 2	Gross carrying amount Stage 3	Gross carrying amount Total	Allowance for ECL Stage 1	Allowance for ECL Stage 2	Allowance for ECL Stage 3	Allowance for ECL Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	34,351	857	-	35,208	6	-	-	6	35,202	-
Satisfactory	0.60 to < 11.35%	26,057	4,057	-	30,114	4	39	-	43	30,071	0.1
Higher Risk	11.35% to < 100%	79	772	-	851	-	5	-	5	846	0.6
Credit Impaired	100%	-	-	262	262	-	-	-	-	262	-
Total		60,487	5,686	262	66,435	10	44	-	54	66,381	0.1

Risk performance

Credit risk

Credit risk profile by internal PD grade for loans and advances at amortised cost (audited)

Barclays Bank UK PLC Credit quality description	PD range	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Allowance for ECL Stage 1	Stage 2	Stage 3	Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	144,451	11,333	-	155,784	40	40	-	80	155,704	0.1
Satisfactory	0.60 to < 11.35%	13,253	15,016	-	28,269	152	917	-	1,069	27,200	3.8
Higher Risk	11.35% to < 100%	94	3,074	-	3,168	7	502	-	509	2,659	16.1
Credit Impaired	100%	-	-	4,312	4,312	-	-	1,269	1,269	3,043	29.4
Total		157,798	29,423	4,312	191,533	199	1,459	1,269	2,927	188,606	1.5

Credit risk profile by internal PD grade for contingent liabilities (audited)

Barclays Bank UK PLC Credit quality description	PD range	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Allowance for ECL Stage 1	Stage 2	Stage 3	Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	910	-	-	910	-	-	-	-	910	-
Satisfactory	0.60 to < 11.35%	-	-	-	-	-	-	-	-	-	-
Higher Risk	11.35% to < 100%	-	-	-	-	-	-	-	-	-	-
Credit Impaired	100%	-	-	-	-	-	-	-	-	-	-
Total		910	-	-	910	-	-	-	-	910	-

Credit risk profile by internal PD grade for loan commitments (audited)

Barclays Bank UK PLC Credit quality description	PD range	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Allowance for ECL Stage 1	Stage 2	Stage 3	Total	Net exposure	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Strong	0.0 to < 0.60%	34,351	857	-	35,208	6	-	-	6	35,202	-
Satisfactory	0.60 to < 11.35%	26,057	4,057	-	30,114	4	39	-	43	30,071	0.1
Higher Risk	11.35% to < 100%	79	772	-	851	-	5	-	5	846	0.6
Credit Impaired	100%	-	-	262	262	-	-	-	-	262	-
Total		60,487	5,686	262	66,435	10	44	-	54	66,381	0.1

Stage 1 higher risk assets, presented gross of associated collateral held, are of weaker credit quality but have not significantly deteriorated since origination. Examples would include leveraged corporate loans or non-prime credit cards.

IFRS 9 Stage 1 and Stage 2 classification is not dependent solely on the absolute probability of default but on elements that determine a Significant Increase in Credit Risk (see Note 8 on page 125), including relative movement in probability of default since initial recognition. There is therefore no direct relationship between credit quality and IFRS 9 stage classification.

Analysis of specific portfolios and asset types

Secured home loans

The UK home loan portfolio primarily comprises first lien mortgages and accounts for 99% of the Barclays Bank UK Group's total home loans balance.

Home loans principal portfolios	
As at 31 December 2018	
Gross loans and advances (£m)	**136,517**
30 day arrears rate, excluding recovery book (%)	**0.4**
90 day arrears rate, excluding recovery book (%)	**0.1**
Annualised gross charge-off rate - 180 days past due (%)	**0.3**
Recovery book proportion of outstanding balances (%)	**0.2**
Recovery book impairment coverage ratio (%)	**7.1**

Within the UK home loans portfolio:

- Owner-occupied interest-only home loans comprised 26% of total balances. The average balance weighted LTV on these loans was 38.8%. The 90 day arrears rate excluding recovery book was 0.3%.
- Buy-to-let home loans comprised 12% of total balances. The average balance weighted LTV was 55.4%. The BTL 90 day arrears rate excluding recovery book was 0.1%.

Home loans principal portfolios - distribution of balances by LTV[a]

As at 31 December 2018	Distribution of balances %	Distribution of impairment allowance %	Coverage ratio %
<=75%	**90.6**	**50.9**	**-**
>75% and <=90%	**8.6**	**22.1**	**0.1**
>90% and <=100%	**0.7**	**7.7**	**0.5**
>100%	**0.1**	**19.3**	**10.8**

Note
a Portfolio marked to market based on the most updated valuation including recovery book balances. Updated valuations reflect the application of the latest HPI available as at 31 December 2018.

Home loans principal portfolios - Average LTV	
As at 31 December 2018	
Overall portfolio LTV (%):	
Balance weighted	**48.9**
Valuation weighted	**35.8**
For >100% LTVs:	
Balances (£m)	**147**
Marked to market collateral (£m)	**130**
Average LTV: balance weighted (%)	**134.0**
Average LTV: valuation weighted (%)	**119.1**
% of balances in recovery book	**5.5**

Home loans principal portfolios - new lending	
As at 31 December 2018	
New bookings (£m)	**17,718**
New home loan proportion above 90% LTV (%)	**1.8**
Average LTV on new home loans: balance weighted (%)	**65.4**
Average LTV on new home loans: valuation weighted (%)	**57.4**

Credit cards, unsecured loans and other retail lending

The principal portfolios listed below accounted for 94% of Barclays Bank UK Group's total credit cards, unsecured loans and other retail lending.

Credit cards and unsecured loans principal portfolios	Gross loans and advances	30 day arrears, excluding recovery book	90 day arrears, excluding recovery book	Annualised gross charge-off rate
	£m	%	%	%
As at 31 December 2018				
UK cards	17,285	1.8	0.9	4.8
UK personal loans	6,335	2.3	1.1	3.8

Risk performance

Market risk

Summary of Contents

Market risk

The risk of loss arising from potential adverse changes in the value of the firm's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations.

All disclosures in this section (pages 72 to 73) are unaudited unless otherwise stated.

Overview of market risk

This section contains key statistics describing the market risk profile of Barclays Bank UK Group:

- page 36 and 37 covers the management of market risk. Management measures are shown on page 73.

Measures of market risk in Barclays Bank UK Group and accounting measures

Traded market risk measures such as VaR and balance sheet exposure measures have fundamental differences:

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

For these reasons, it is not possible to present direct reconciliations of traded market risk and accounting measures.

Summary of performance in the period

Overall, Barclays Bank UK Group has maintained a steady risk profile:

- measures of traded market risk have been relatively stable over 2018.

Key metrics

Average management value at risk in 2018 at £0.5m remained stable throughout the period:

£0.5m

Traded market risk review

Review of management measures

The following disclosures provide details on management measures of market risk.

The table below shows the total management VaR on a diversified basis by risk factor. Total management VaR includes all trading positions in Barclays Bank UK Group Treasury.

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

The daily average, maximum and minimum values of management VaR

Management VaR (95%, one day) (audited)	2018		
	Average	High[a]	Low[a]
For the year ended 31 December	£m	£m	£m
Interest rate risk	0.2	1.3	-
Basis risk	0.4	0.6	0.2
Spread risk	-	0.1	-
Foreign exchange risk	0.1	0.4	-
Diversification effect[a]	(0.2)	n/a	n/a
Total management VaR	0.5	1.5	0.3

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

Average management VaR in Barclays Bank UK Group from April 2018 is £0.5m, driven by interest rate risk in Barclays Bank UK Group Treasury across GBP, USD and EUR rates.

Summary of Contents

Liquidity risk

The risk that the firm is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

All disclosures in this section (pages 75 to 79) are unaudited unless otherwise stated.

Overview

The liquidity pool increased to £45bn (30 June 2018: £43bn) driven largely by franchise led net deposit growth during the period. The strong liquidity position reflects the Barclays Bank UK Group's prudent approach given the continued macroeconomic uncertainty.

Liquidity risk stress testing

The liquidity risk assessment measures the potential contractual and contingent stress outflows under a range of stress scenarios, which are then used to determine the size of the liquidity pool that is immediately available to meet anticipated outflows if a stress occurs. The scenarios include a 30-day Barclays-specific stress event, a 90-day market-wide stress event and a 30-day combined scenario consisting of both a Barclays-specific and market-wide stress event.

The CRD IV Delegated Act Liquidity Coverage ratio (LCR) requirement takes into account the relative stability of different sources of funding and potential incremental funding requirements in a stress. The LCR is designed to promote short-term resilience of a bank's liquidity risk profile by holding sufficient high quality liquid assets to survive an acute stress scenario lasting for 30 days.

As at 31 December 2018, Barclays Bank UK Group held eligible liquidity assets in excess of 100% of the net stress outflows to its internal and external regulatory requirements. A significant portion of the liquidity pool was held in cash and deposits with central banks. The liquidity pool was held entirely within Barclays Bank UK PLC.

	As at 31.12.18 £bn
Barclays Bank UK Group liquidity pool	**45**

	%
Barclays Bank UK Group liquidity coverage ratio	**164**

Contractual maturity of financial assets and liabilities

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.

No comparative tables have been provided for prior year assets amounting to £60m which represents loans and advances at amortised cost (£53m), financial investments (£5m) and other assets (£2m) and liabilities amounting to £14m which represent current tax liabilities (£5m), other liabilities (£8m) and provisions (£1m), given the materiality of these balances. For contractual maturity these assets and liabilities were all due within one year, there were no off-balance sheet commitments given and for functional currency of operation all balances were in GBP.

Contractual maturity of financial assets and liabilities (audited)

Barclays Bank UK Group As at 31 December 2018	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than nine months £m	Over nine months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets											
Cash and balances at central banks	40,669	–	–	–	–	–	–	–	–	–	40,669
Cash collateral and settlement balances	116	3,233	–	–	–	–	–	–	–	–	3,349
Loans and advances at amortised cost	3,622	1,830	2,235	1,631	1,663	6,734	6,658	14,274	31,299	118,619	188,565
Reverse repurchase agreements and other similar secured lending	–	1,759	–	–	–	–	–	–	–	–	1,759
Trading portfolio assets	151	–	–	–	–	–	–	–	–	–	151
Financial assets at fair value through the income statement	–	–	–	–	–	4	10	25	294	3,547	3,880
Derivative financial instruments	241	–	–	–	–	–	–	–	–	–	241
Financial assets at fair value through other comprehensive income	–	646	1,422	577	679	545	363	528	1,271	679	6,710
Other financial assets	428	65	–	–	–	–	–	–	–	–	493
Total financial assets	45,227	7,533	3,657	2,208	2,342	7,283	7,031	14,827	32,864	122,845	245,817
Other assets											5,488
Total assets											251,305
Liabilities											
Deposits at amortised cost	188,767	974	1,370	1,270	923	2,823	1,358	–	–	–	197,485
Cash collateral and settlement balances	213	26	–	–	–	–	–	–	–	–	239
Repurchase agreements and other similar secured borrowing	–	760	–	–	–	–	10,017	1,201	–	–	11,978
Debt securities in issue	–	1,060	197	798	1,891	1,509	998	3,611	185	923	11,172
Subordinated liabilities	–	–	–	–	–	1,129	1,480	1,350	3,320	269	7,548
Trading portfolio liabilities	1,269	–	–	–	–	–	–	–	–	–	1,269
Derivative financial instruments	419	–	–	–	–	–	–	–	–	–	419
Other financial liabilities	129	1,168	–	–	–	90	–	–	–	–	1,387
Total financial liabilities	190,797	3,988	1,567	2,068	2,814	5,551	13,853	6,162	3,505	1,192	231,497
Other liabilities											2,865
Total liabilities											234,362
Cumulative liquidity gap	(145,570)	(142,025)	(139,935)	(139,795)	(140,267)	(138,535)	(145,357)	(136,692)	(107,333)	14,320	16,943

Contractual maturity of financial assets and liabilities (audited)

Barclays Bank UK PLC As at 31 December 2018	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than nine months £m	Over nine months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets											
Cash and balances at central banks	40,664	–	–	–	–	–	–	–	–	–	40,664
Cash collateral and settlement balances	131	3,233	–	–	–	–	–	–	–	–	3,364
Loans and advances at amortised cost	3,302	2,146	2,235	1,630	1,706	6,733	6,657	14,273	31,298	118,626	188,606
Reverse repurchase agreements and other similar secured lending	–	1,759	–	–	–	–	–	–	–	–	1,759
Trading portfolio assets	151	–	–	–	–	–	–	–	–	–	151
Financial assets at fair value through the income statement	–	–	–	–	–	4	10	25	294	3,547	3,880
Derivative financial instruments	241	–	–	–	–	–	–	–	–	–	241
Financial assets at fair value through other comprehensive income	–	646	1,423	577	679	545	363	528	1,271	678	6,710
Other financial assets	428	73	–	–	–	–	–	–	–	–	501
Total financial assets	44,917	7,857	3,658	2,207	2,385	7,282	7,030	14,826	32,863	122,851	245,876
Other assets											5,575
Total assets											251,451
Liabilities											
Deposits at amortised cost	189,037	1,006	1,370	2,020	923	3,317	1,358	–	–	–	199,031
Cash collateral and settlement balances	213	26	–	–	–	–	–	–	–	–	239
Repurchase agreements and other similar secured borrowing	–	760	–	–	–	–	10,017	1,201	–	–	11,978
Debt securities in issue	–	1,059	197	48	1,891	1,000	998	3,611	185	923	9,912
Subordinated liabilities	–	–	–	–	–	1,129	1,481	1,350	3,319	269	7,548
Trading portfolio liabilities	1,269	–	–	–	–	–	–	–	–	–	1,269
Derivative financial instruments	436	–	–	–	–	–	–	–	–	–	436
Other financial liabilities	129	977	–	–	–	90	–	–	–	–	1,196
Total financial liabilities	191,084	3,828	1,567	2,068	2,814	5,536	13,854	6,162	3,504	1,192	231,609
Other liabilities											2,818
Total liabilities											234,427
Cumulative liquidity gap	(146,167)	(142,138)	(140,047)	(139,908)	(140,337)	(138,591)	(145,415)	(136,751)	(107,392)	14,267	17,024

Expected maturity date may differ from the contractual dates, to account for:

- trading portfolio assets and liabilities and derivative financial instruments, which may not be held to maturity as part of Barclays Bank UK Group's trading strategies
- retail and business bank deposits, which are included within deposits at amortised cost, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for Barclays Bank UK Group's operations and liquidity needs because of the broad base of customers, both numerically and by depositor type
- loans to retail and business bank customers, which are included within loans and advances at amortised cost and financial assets at fair value, may be repaid earlier in line with terms and conditions of the contract
- debt securities in issue and subordinated liabilities may include early redemption features.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by Barclays Bank UK 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.

Contractual maturity of financial liabilities - undiscounted (audited)

Barclays Bank UK Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018									
Deposits at amortised cost	188,767	974	1,370	2,193	4,182	–	–	–	197,486
Cash collateral and settlement balances	213	26	–	–	–	–	–	–	239
Repurchase agreements and other similar secured borrowing	–	762	–	–	10,235	1,243	–	–	12,240
Debt securities in issue	–	1,061	197	2,689	2,508	3,705	199	1,025	11,384
Subordinated liabilities	–	–	–	–	2,686	1,423	3,959	474	8,542
Trading portfolio liabilities	1,269	–	–	–	–	–	–	–	1,269
Derivative financial instruments	419	–	–	–	–	–	–	–	419
Other financial liabilities	129	1,168	–	–	90	–	–	–	1,387
Total financial liabilities	190,797	3,991	1,567	4,882	19,701	6,371	4,158	1,499	232,966

Contractual maturity of financial liabilities - undiscounted (audited)

Barclays Bank UK PLC	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018									
Deposits at amortised cost	189,037	1,006	1,370	2,943	4,635	–	–	–	198,991
Cash collateral and settlement balances	213	26	–	–	–	–	–	–	239
Repurchase agreements and other similar secured borrowing	–	762	–	–	10,235	1,243	–	–	12,240
Debt securities in issue	–	1,060	197	1,940	1,998	3,705	199	1,025	10,124
Subordinated liabilities	–	–	–	–	2,686	1,423	3,959	474	8,542
Trading portfolio liabilities	1,269	–	–	–	–	–	–	–	1,269
Derivative financial instruments	436	–	–	–	–	–	–	–	436
Other financial liabilities	129	977	–	–	90	–	–	–	1,196
Total financial liabilities	191,084	3,831	1,567	4,883	19,644	6,371	4,158	1,499	233,037

Maturity of off-balance sheet commitments received and given (audited)

The tables below present the maturity split of Barclays Bank UK Group's off-balance sheet commitments received and given at the balance sheet date. The amounts disclosed in the tables are the undiscounted cash flows (i.e. nominal values) on the basis of earliest opportunity at which they are available.

Maturity analysis of off-balance sheet commitments received (audited)

Barclays Bank UK Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than nine months £m	Over nine months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018											
Guarantees, letters of credit and credit insurance	706	–	–	–	–	–	–	–	–	–	706
Other commitments received	–	–	–	–	–	–	–	–	–	–	–
Total off-balance sheet commitments received	706	–	–	–	–	–	–	–	–	–	706

Maturity analysis of off-balance sheet commitments given (audited)

Barclays Bank UK Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than nine months £m	Over nine months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018											
Contingent liabilities	910	–	–	–	–	–	–	–	–	–	910
Standby facilities, credit lines and other commitments	66,435	–	–	–	–	–	–	–	–	–	66,435
Total off-balance sheet commitments given	67,345	–	–	–	–	–	–	–	–	–	67,345

Maturity analysis of off-balance sheet commitments received (audited)

Barclays Bank UK PLC	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018									
Guarantees, letters of credit and credit insurance	706	–	–	–	–	–	–	–	706
Other commitments received	–	–	–	–	–	–	–	–	–
Total off balance sheet commitments received	706	–	–	–	–	–	–	–	706

Maturity analysis of off-balance sheet commitments given (audited)

Barclays Bank UK PLC	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than nine months £m	Over nine months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
As at 31 December 2018											
Contingent liabilities	910	–	–	–	–	–	–	–	–	–	910
Standby facilities, credit lines and other commitments	66,435	–	–	–	–	–	–	–	–	–	66,435
Total off-balance sheet commitments given	67,345	–	–	–	–	–	–	–	–	–	67,345

Capital risk

The risk that the firm has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes). This includes the risk from the firm's pension plans.

All disclosures in this section (page 80) are unaudited unless otherwise stated.

Overview

Throughout 2018, Barclays Bank UK PLC was regulated by the Prudential Regulation Authority (PRA) on an individual basis. The disclosures below provide key capital metrics for Barclays Bank UK PLC on an individual basis with further information on its risk profile included in the Barclays PLC Pillar 3 Report 2018. The Barclays Bank UK Group became regulated by the PRA from 1 January 2019.

As at 31 December 2018, Barclays Bank UK PLC transitional CET1 ratio was 14.2% which exceeded the 2018 transitional minimum requirement.

Capital ratios[a,b]	As at 31 December 2018
Common equity tier 1 (CET1)	14.2%
Tier 1 (T1)	17.0%
Total regulatory capital	21.3%

Capital resources[a] (audited)	£bn
CET1 capital	10.7
T1 capital	12.8
Total regulatory capital	16.1

Total risk weighted assets (unaudited)	75.3

Capital Requirements Regulation (CRR) leverage ratio[a]	£bn
CRR leverage ratio	4.9%
T1 capital	12.8
CRR leverage exposure	258

Notes
a Capital, RWAs and leverage are calculated applying the transitional arrangements of the CRR. This includes IFRS 9 transitional arrangements.
b The fully loaded CET1 ratio was 13.8%, with £10.4bn of CET1 capital and £75.4bn of RWAs, calculated without applying the transitional arrangements under the CRR.

Interest rate risk in the banking book

The risk that the firm is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its (non-traded) assets and liabilities.

All disclosures in this section (pages 81 to 84) are unaudited.

Overview

The non-traded market risk framework covers exposures in the banking book, mostly relating to accrual accounted and FVOCI instruments. The potential volatility of net interest income is measured by an Annual Earnings at Risk (AEaR) metric which is monitored regularly and reported to senior management and the Barclays Bank UK PLC Board Risk Committee as part of the limit monitoring framework.

Summary of performance in the period

- Annual Earnings at Risk (AEaR), is a key measure of interest rate risk in the banking book (IRRBB).

Key metrics

+£30m

AEaR across Barclays Bank UK Group from a positive 25bps shock in interest rates.

Net interest income sensitivity

The tables below show a sensitivity analysis on pre-tax net interest income for non-trading financial assets and financial liabilities, including the effect of any hedging. The sensitivity has been measured using the Annual Earnings at Risk (AEaR) methodology. Note that this metric assumes an instantaneous parallel change to interest rate forward curves. The model floors shocked market rates at zero; changes in Net Interest Income (NII) sensitivity are only observed where forward rates are greater than zero. The main model assumptions are: (i) one-year time horizon; (ii) balance sheet is held constant; (iii) balances are adjusted for assumed behavioural profiles (e.g. considers that customers may remortgage before the contractual maturity); and (iv) behavioural assumptions are kept unchanged in all rate scenarios.

Net Interest Income Sensitivity (AEaR) by currency[a]	2018	
	+25 basis points	-25 basis points
Barclays Bank UK Group	£m	£m
GBP	30	(73)
Total	**30**	**(73)**
As percentage of net interest income	**0.68%**	**(1.65%)**

Net Interest Income Sensitivity (AEaR) by currency[a]	2018	
	+25 basis points	-25 basis points
Barclays Bank UK PLC	£m	£m
GBP	30	(73)
Total	**30**	**(73)**
As percentage of net interest income	**0.68%**	**(1.65%)**

Note
a Excludes Barclays Bank UK Group Treasury.

Analysis of equity sensitivity

Equity sensitivity table measures the overall impact of a +/- 25bps movement in interest rates on retained earnings, fair value through other comprehensive income (FVOCI) and cash flow hedge reserves. This data is captured using DV01 metric which is an indicator of the shift in value for a 1 basis point in the yield curve.

Analysis of equity sensitivity (audited)	2018	
	+25 basis points	-25 basis points
Barclays Bank UK Group	£m	£m
Net interest income	30	(73)
Taxation effects on the above	(8)	20
Effect on profit for the year	**22**	**(53)**
As percentage of net profit after tax	**1.97%**	**(4.75%)**
Effect on profit for the year (per above)	22	(53)
Fair value through other comprehensive income reserve	(14)	15
Cash flow hedge reserve	(184)	184
Taxation effects on the above	50	(50)
Effect on equity	**(126)**	**96**
As percentage of equity	**(0.74%)**	**0.57%**

Analysis of equity sensitivity (audited)	2018	
	+25 basis points	-25 basis points
Barclays Bank UK PLC	£m	£m
Net interest income	30	(73)
Taxation effects on the above	(8)	20
Effect on profit for the year	**22**	**(53)**
As percentage of net profit after tax	**1.95%**	**(4.71%)**
Effect on profit for the year (per above)	22	(53)
Fair value through other comprehensive income reserve	(14)	15
Cash flow hedge reserve	(184)	184
Taxation effects on the above	50	(50)
Effect on equity	**(126)**	**96**
As percentage of equity	**(0.74%)**	**0.56%**

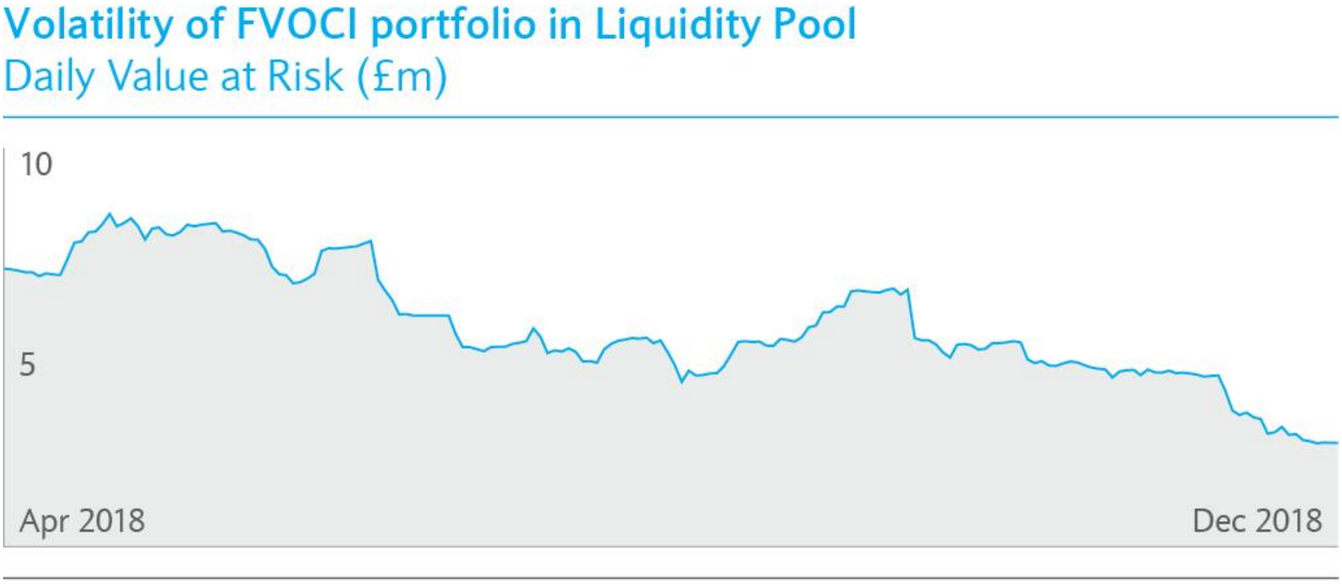
Movements in the FVOCI reserve would impact CET1 capital, however the movement in the cash flow hedge reserve would not impact CET1 capital.

Volatility of the FVOCI portfolio in the liquidity pool

Changes in value of FVOCI exposures flow directly through capital via the FVOCI reserve. The volatility of the value of the FVOCI investments in the liquidity pool is captured and managed through a value measure rather than an earning measure, i.e. the non-traded market risk VaR.

Although the underlying methodology to calculate the non-traded VaR is identical to the one used in traded management VaR, the two measures are not directly comparable. The non-traded VaR represents the volatility to capital driven by the FVOCI exposures. These exposures are in the banking book and do not meet the criteria for trading book treatment.

Volatility of FVOCI portfolio in Liquidity Pool



Analysis of volatility of the FVOCI portfolio in the liquidity pool

	2018		
	Average	High	Low
For the year ended 31 December	£m	£m	£m
Non-traded market value at risk (daily, 95%)	6	8	4

The volatility in the FVOCI portfolio was primarily driven by changes in interest rate risk exposure taken in the liquid asset buffer.

Operational risk

The risk of loss to the firm from inadequate or failed processes or systems, human factors or due to external events (for example fraud) where the root cause is not due to credit or market risks

All disclosures in this section are unaudited unless otherwise stated.

Overview

Operational risks are inherent in Barclays Bank UK Group's business activities and it is not always cost effective or possible to attempt to eliminate all operational risks. The Operational Risk Management Framework is therefore focused on identifying operational risks, assessing them and managing them within Barclays Bank UK Group's approved risk appetite.

The operational risk principal risk comprises the following risks: data management and information, financial reporting, fraud, payments process, people, physical security, premises, prudential regulation, supplier, tax, technology and transaction operations.

For definitions of these risks see page 42. In order to provide complete coverage of the potential adverse impacts on Barclays Bank UK Group arising from operational risk, the operational risk taxonomy extends beyond the risks listed above to cover operational risks associated with other principal risks too.

This section provides an analysis of the Barclays Bank UK Group operational risk profile, including events above Barclays Bank UK Group's reportable threshold, which have had a financial impact in 2018.

For information on conduct risk events please see page 88.

Summary of performance in the period

During 2018, total operational risk losses amounted to £60m and the number of recorded events for 2018 was 622. The total operational risk losses for the year were primarily driven by events falling within the Execution, Delivery and Process Management and External Fraud categories, which tend to be high volume but low impact events.

Key metrics

91%

of Barclays Bank UK Group's reportable operational risk events had a loss value of £50,000 or less

74%

of events by number are due to External Fraud

Operational risk profile

Within operational risk, a high proportion of risk events have a low financial impact whilst a very small proportion of operational risk events will have a material impact on the financial results of Barclays Bank UK Group. In 2018, 91% of Barclays Bank UK Group reportable operational risk events by volume had a value of less than £50,000, although this type of event accounted for only 16% of Barclays Bank UK Group's total net operational risk losses.

The analysis below presents Barclays Bank UK Group's operational risk events by Basel event category:

- Execution, Delivery and Process Management impacts totalled £37m and accounted for 61% of total operational risk losses. The events in this category are typical of the banking industry as a whole where high volumes of transactions are processed on a daily basis. The volume of events in this category was 126, only 20% of total events.
- External Fraud is the category with the highest volume of events at 458, 74% of total event count in 2018 however impacts of £19m accounted for only 30% of total operational risk losses. In this category, high volume but low value events are driven by transactional fraud often related to debit and credit card usage.

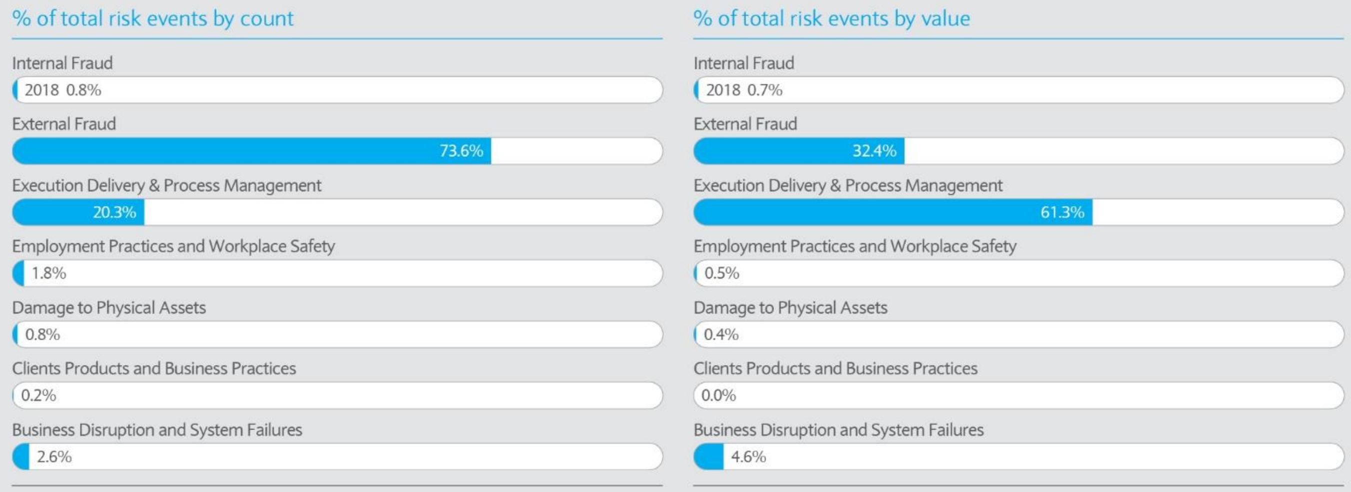
Barclays Bank UK Group's operational risk profile is informed by bottom-up risk assessments undertaken by each business unit and top-down qualitative review by the operational risk specialists for each risk type. Fraud, Transaction Operations and Technology continue to be highlighted as key operational risk exposures. The operational risk profile is also informed by a number of risk themes: Cyber, Data, Execution and Resilience. These represent threats to Barclays Bank UK Group that extend across multiple risk types, and therefore require an integrated risk management approach.

Investment continues to be made in improving the control environment across Barclays Bank UK Group. Particular areas of focus include new and enhanced fraud prevention systems and tools to combat the increasing level of fraud attempts being made and to minimise any disruption to genuine transactions. Fraud remains an industry wide threat and Barclays Bank UK Group continues to work closely with external partners on various prevention initiatives. Technology, resilience and cyber security risks evolve rapidly so Barclays Bank UK Group maintains continued focus and investment in our control environment to manage these risks, and actively partners with peers and relevant organisations to understand and disrupt threats originating outside Barclays Bank UK Group.

Cyber threats, which are evolving and increasing in sophistication and frequency, continue to be a threat across multiple industries globally. Barclays Bank UK Group recognises the potential impact of cyber security threats on all areas of its business. This extends to third party suppliers and service providers which also presents a potential source of cyber security threats, leading to the need for increased scrutiny of Barclays Bank UK Group's relationships with third parties. The potential impact of cyber security threats includes the potential for operational disruption, reputational harm, and costs associated with possible litigation, regulatory investigation, and remediation. The Regulators in Europe and the US have been increasingly focused on cyber security risk management and operational resilience for banking organisations given the complexity of the transactions they process, the number of jurisdictions in which they operate, and the quantities of sensitive data they hold and process. This has resulted in a number of proposed laws, regulations and other requirements that necessitate implementation of a variety of increased controls and enhancement activities for regulated Barclays Bank UK Group entities. These include, among others, the adoption of cyber security policies and procedures meeting specified criteria, minimum required security measures, controls and procedures for enhanced reporting and public disclosures, compliance certification requirements, and other cyber and information risk governance measures. Further to this, Barclays Bank UK Group continues to use an intelligence-driven defence approach, analysing external events for current and emerging cyber threats which allows the delivery of proactive counter measures; Barclays Bank UK Group also completes cyber threat scenarios and incident playbooks to assess our security posture and business impacts and runs an internal adversarial capability which simulates hackers to proactively test controls and responses. The increased control environment has enhanced and will continue to enhance our security posture and our ability to better protect the organisation and our customers. Cyber-attacks however are increasingly sophisticated and there can be no assurance that the measures implemented will be fully effective to prevent or mitigate future attacks, the consequences of which could be significant to Barclays Bank UK Group. Furthermore, such measures have resulted and will result in increased technology and other costs in connection with cyber security mitigation and compliance for Barclays Bank UK Group. Barclays Bank UK Group currently incurs an additional cost in mitigating its cyber risk via insurance.

For further information, see operational risk management section on pages 41 and 42.

Operational risk events by Basel event category[a,b]



Notes

a The data disclosed includes operational risk losses for reportable events impacting Barclays Bank UK Group business areas, having impact of ≥ £10,000 and excludes events that are conduct or legal risk, aggregate and boundary events. A boundary event is an operational risk event that results in a credit risk impact.

b Reporting against this entity is from 1 April 2018, the date when the UK banking business was transferred to Barclays Bank UK PLC, hence no prior year comparative values are available to be reported here.

Model risk

The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.

All disclosures in this section are unaudited unless otherwise stated.

Overview

Model risk is a focus area for management and the Barclays Bank UK PLC Board. It is an important component of regulators' assessment of Barclays Bank UK Group's risk management capabilities. Models are used to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risks, valuing exposures, conducting stress testing, assessing capital adequacy, supporting new business acceptance and risk/reward evaluation, managing client assets, or meeting reporting requirements.

Summary of performance in the period

The principal risk framework for model risk in Barclays Group was established in 2016. In 2017, the framework was enhanced and governance and controls capabilities were established. In 2018 the framework was embedded further in the organisation and governance was improved by:

- strengthening of the Barclays Group-wide Model Risk Management (MRM) framework, policy and associated standards, validation templates and procedures
- broadening governance of models to include qualitative estimation approaches called 'non-modelled methods', which cover material decision making and financial and regulatory reporting functions of Barclays Bank UK Group, such as the primary stress testing programmes and impairment estimations
- enhancement of Barclays Bank UK PLC Board oversight of model risk, through the reporting of the model risk tolerance framework and periodic updates to the Barclays Bank UK PLC Board on the progress of the MRM implementation
- improved collection and attestation of the Barclays Group's global inventory of models
- reporting metrics on policy adherence and breaches
- enhancement of model development and model identification processes, with the areas of model ownership throughout Barclays Bank UK Group embedding and improving their own model control functions.

In addition to the governance outlined above, which details how new models are validated and existing models are internally controlled and assessed, models have been classified based on their materiality (the level of reliance placed on the model output for decision making or reporting), and their complexity. A strengthened programme of review and validation for such material models commenced during 2017 and has made significant progress in 2018. In 2019 through to 2020, model risk governance will continue with the programme of model documentation and reviews, targeting prioritised models across Barclays Bank UK Group as well as focusing on performance monitoring of models already brought into governance to assess compliance with the framework.

Conduct risk

The risk of detriment to customers, clients, market integrity, effective competition or Barclays from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.

All disclosures in this section are unaudited unless otherwise stated.

Overview

Barclays Bank UK Group strives to create and maintain mutually beneficial long-term relationships with its customers and clients. This means taking reasonable steps to understand their needs and providing them with products and services that meet those needs appropriately and help them manage their financial affairs.

Barclays Bank UK Group also plays a critical role in promoting fair, open and transparent markets, as well as fostering shared growth for all.

Summary of performance in the period

Barclays Bank UK Group is committed to continuing to drive the right culture throughout all levels of the organisation. Barclays Bank UK Group will continue to enhance effective management of conduct risk and appropriately consider the relevant tools, governance and management information in decision-making processes. Focus on management of conduct risk is ongoing and the Barclays Bank UK Group Conduct Dashboards are a key component of this.

The entity continues to review the role and impact of conduct issues in the remuneration process at both the individual and business level.

Businesses have continued to assess the potential customer, client and market impacts of strategic change and the implementation of structural reform. As part of the 2018 Medium-Term Planning Process and associated Strategic Risk Assessment, material conduct risks associated with strategic and financial plans were assessed.

Throughout 2018, conduct risks were raised by businesses for consideration by the Barclays Bank UK PLC Board Risk Committee. The Committee reviewed the risks raised and whether management's proposed actions were appropriate to mitigate the risks effectively. Barclays Bank UK PLC Board Risk Committee received regular updates with regards to key risks and issues including those relating to structural reform and regulatory change.

Although certain legacy litigation and conduct issues have been resolved, Barclays Bank UK Group continued to incur costs in relation to litigation and conduct matters, please refer to Note 25 Legal, competition and regulatory matters and Note 23 Provisions, for further details. Costs include customer redress and remediation, as well as fines and settlements. Resolution of these matters remains a necessary and important part of delivering Barclays Bank UK Group strategy and an ongoing commitment to improve oversight of culture and conduct.

The Barclays Bank UK PLC Board Risk Committee and Senior Management received Dashboards setting out key indicators in relation to conduct, financial crime, culture, and complaints. These continue to be evolved and enhanced to allow effective oversight and decision-making. Barclays Bank UK Group has operated at the overall set tolerance for conduct risk throughout 2018. The tolerance is assessed by the business through Key Indicators which are aggregated and provide an overall rating which is reported to the Barclays Bank UK PLC Board Risk Committee as part of the Conduct Dashboard.

Barclays Bank UK Group remained focused on the continuous improvements being made to manage risk effectively, with an emphasis on enhancing governance and management information to help identify risks at earlier stages.

For further details on the non-financial performance measures, please refer to page 8 of the Strategic Report.

Reputation risk

The risk that an action, transaction, investment or event will reduce trust in the firm's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

All disclosures in this section are unaudited unless otherwise stated.

Overview

Reputation risk may arise from any business decision or activity. It may also arise as a result of issues and incidents relevant to other principal risks, in particular other non-financial risks e.g. conduct or operational risk. Reputation risks and issues are identified via regular information gathering from within the business and from external stakeholders. Some risks and issues are specific to Barclays Bank UK Group, while others are also relevant to the Barclays Group and to the banking sector more generally.

Barclays Group has set tolerances for reputation risk, which take into account the risks arising from specific events or decisions and longer-term strategic themes. The primary responsibility for managing reputation risk lies with each component Barclays Bank UK Group business, where there are processes in place to identify, assess and manage reputation risks and issues.

Barclays Bank UK Group is committed to identifying reputation risks and issues as early as possible and managing them appropriately. Barclays Bank UK Group strives to create and maintain mutually beneficial long-term relationships with its customers and clients. This means taking accountability for understanding their needs and providing them with products and services that meet those needs appropriately and help them manage their financial affairs.

Barclays Bank UK Group also plays a critical role in promoting fair, open and transparent markets, as well as fostering shared growth for all.

Summary of performance in the period

Businesses have continued to assess the potential customer, client and market impacts of strategic change and the implementation of structural reform.

Throughout 2018, reputation risks were raised by businesses for consideration by the governance forums. Barclays UK Risk Committee reviewed the risks raised and whether management's proposed actions were appropriate to mitigate the risks effectively. Barclays UK Risk Committee received regular updates on key risks and issues including those relating to structural reform and regulatory change.

Barclays Bank UK Group continued to incur significant costs in relation to litigation and conduct matters, please refer to Note 25 Legal, competition and regulatory matters and Note 23 Provisions for further details. Costs include customer redress and remediation, as well as fines and settlements. Resolution of these matters remains a necessary and important part of delivering Barclays Bank UK Group's strategy and an ongoing commitment to improve oversight of culture and conduct and management of reputation risks arising.

Barclays Bank UK Group remained focused on the continuous improvements being made to manage risk effectively, with an emphasis on enhancing governance and management information to help identify risks at earlier stages.

For further details on the non-financial performance measures, please refer to page 8 of the Strategic Report.

Legal risk

The risk of loss or imposition of penalties, damages or fines from the failure of the firm to meet its legal obligations including regulatory or contractual requirements.

All disclosures in this section are unaudited unless otherwise stated.

Overview

Barclays Bank UK Group conducts diverse activities in a highly regulated market and therefore is exposed to the risk of loss or imposition of penalties, damages, fines and sanctions relating to a failure to meet its legal obligations in the conduct of its business. Legal risk encompasses the failure of Barclays Group to appropriately seek legal advice, escalate or manage contractual arrangements, litigation, intellectual property, competition/anti-trust issues, its use of law firms and its contact with regulators. Barclays Bank UK Group has limited tolerance for legal risk, however the multitude of laws and regulations are highly dynamic and their application to particular circumstances is often unclear. A Legal Risk Management Framework (LRMF) includes Barclays Group-wide requirements covering how legal risks are identified, managed and measured to support effective management of legal risk.

Summary of performance in the period

In 2018, Barclays Group remained focused on continuous improvements to manage legal risk effectively, with an emphasis on enhancing and establishing processes to help identify risks at earlier stages and escalate as appropriate.

This is supported by the LRMF, which was reviewed and enhanced to clarify Barclays Group-wide requirements relating to the identification, management and measurement of legal risk. The LRMF is supported by legal risk policies and associated standards covering areas of identified legal risk and mandatory minimum control requirements. An additional legal risk policy has been created and implemented in relation to the engagement of the Legal function with respect to key business decisions. For further information on the legal risk policies refer to legal risk management on page 47. Refreshed legal risk mandatory training was also implemented across Barclays Group, reinforced by ongoing engagement and education of Barclays Group's business and functions.

The Legal function organisation and coverage model aligns expertise to businesses, functions, products, activities and geographic locations. It continues to provide legal support, oversight, monitoring and challenge across the organisation, including advising on appropriate identification, management and escalation of legal risk. The Legal Executive Committee continues to oversee, monitor and challenge across Barclays Group.

Supervision and regulation

Supervision of Barclays Bank UK Group

Barclays Bank UK Group's operations are subject to a large number of rules and regulations that are a condition for authorisations to conduct banking and financial services business. These apply to business operations, impact financial returns and include capital, leverage and liquidity requirements, authorisation, registration and reporting requirements, restrictions on certain activities, conduct of business regulations and many others. These requirements are set in legislation and rules. Often, the requirements may reflect global standards developed by international bodies such as the G20, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), and the International Organisation of Securities Commissions (IOSCO). Various bodies also create voluntary Codes of Conduct which affect the way Barclays Bank UK Group does business.

The Bank of England (BoE) has responsibility for monitoring the UK financial system as a whole, including by way of conducting annual stress tests on UK banks. The day-to-day regulation and supervision of Barclays Bank UK Group is divided between the Prudential Regulation Authority (PRA) (a division of the BoE) and the Financial Conduct Authority (FCA). In addition, the Financial Policy Committee (FPC) of the BoE has influence on the prudential requirements that may be imposed on the banking system through its powers of direction and recommendation.

Barclays Bank UK PLC is authorised and subject to solo prudential supervision by the PRA and subject to conduct regulation and supervision by the FCA. From 1 January 2019, Barclays Bank UK Group became regulated by the PRA. Barclays Group is subject to prudential supervision by the PRA on a group consolidated basis. Barclays Group is also subject to regulatory initiatives undertaken by the UK Payment Systems Regulator (PSR), as a participant in payment systems regulated by the PSR.

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 by way of prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management and non-executive directors to discuss issues such as strategy, operational resilience, risk management, and recovery and resolution.

The regulation and supervision of market conduct matters is the responsibility of the FCA. The FCA's regulation of Barclays Bank UK PLC is carried out through a combination of proactive engagement, regular thematic work 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.

Both the PRA and the FCA have continued to develop and apply a more pre-emptive approach to supervision and the application of existing standards. This may include the 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 or matters of conduct.

The FCA has retained an approach to enforcement based on credible deterrence that has seen significant growth in the size of regulatory fines. The approach appears to be trending towards a more US model of enforcement including vigorous enforcement of criminal and regulatory breaches, heightened fines and proposed measures related to increased corporate criminal liability.

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. Recently, the FCA has increased its focus on fair pricing in financial services. The FCA is also reviewing whether vulnerable customers pay more for financial services products. These initiatives may affect both the incidence of conduct costs and increase the cost of remediation.

The FCA and the PRA have also increasingly focused on individual accountability within firms. This focus is reflected in the Senior Managers and Certification Regime (the SMCR) which came into force in 2016. The SMCR, which implements the recommendations in the final report of the Parliamentary Commission on Banking Standards relating to individual accountability in banks, imposes a regulatory approval, accountability and fitness and propriety framework in respect of senior or key individuals within relevant firms.

The UK Serious Fraud Office (SFO) has played an active role in recent years in investigating and prosecuting complex fraud, bribery and corruption. If, as a result of an investigation, the SFO determines that it has sufficient evidence to support a realistic prospect of conviction, and to prosecute would be in the public interest, the SFO may bring forward a prosecution. Alternatively, the SFO may consider using a Deferred Prosecution Agreement (DPA). DPAs, which were introduced in February 2014, are judicially supervised agreements between the SFO and organisations that could be prosecuted whereby the SFO suspends prosecution while the organisation in question complies with conditions imposed on it by the DPA, such as the payment of fines.

Global regulatory developments

Regulatory change continues to affect all large financial institutions. Such change emanates from global institutions such as the G20, FSB, BCBS and IOSCO, the EU regionally, and national regulators. The level of regulatory and supervisory uncertainty faced by Barclays Bank UK Group, and the financial markets more broadly, continues to remain elevated. In the EU, the legislative and regulatory bodies have been implementing, and continue to propose, multiple financial regulatory reforms.

There remains much uncertainty regarding the state of the future relationship between the UK and the EU and therefore the potential impact of the UK's withdrawal from the EU on the financial regulatory framework in the UK. There are several possible outcomes.

First, the UK could leave the EU with no deal or arrangement covering financial services in place. At the time of writing, this will happen on 29 March 2019. Under such a scenario, with no ability to passport, and no third country "equivalence"-based recognition in place, Barclays Bank UK PLC would no longer be able to provide services from the UK into the EU27 in the way in which these services are currently provided. As a result of the onshoring of EU legislation in the UK, UK firms would (at least initially) be subject to substantially the same rules and regulations as before Brexit, albeit with EU entities, exposures and assets ceasing to enjoy preferential treatment under the UK's financial regulatory framework (including for capital and liquidity purposes), given that the EU will become a third country for the purposes of such framework. The UK regulators have indicated that they will mitigate the impact of the removal of preferential treatment by providing transitional relief for a period of up to two years during which preferential treatment will continue to apply. The UK may seek to make changes to these rules going forward, particularly in the event of "no deal", where they are not subject to any requirements to maintain particular rules or standards for equivalence purposes.

Secondly, the UK and EU could agree a deal. This could either take the form of a general withdrawal agreement (such as the draft Withdrawal Agreement that Parliament voted against on 15 January 2019) or could be a series of specific bilateral agreements or unilateral measures on financial services topics to facilitate continued provision of services to and from the UK. In either case, such a deal would likely permit the provision of certain services between the UK and the EU. In this scenario, firms incorporated and authorised in the UK would be able to continue to provide services into the EU27 in accordance with the terms of such agreement. UK firms would again be subject to substantially the same rules and regulations as before Brexit as a result of the onshoring of EU legislation in the UK. There would likely be less scope for regulatory change in the UK as continued access to the EU27 would depend on the UK maintaining equivalence with the EU (and vice versa) and other constraints as may be agreed in such an agreement. Thirdly, the UK could decide to delay its withdrawal. This would require the unanimous consent of all other EU member states. In this scenario, UK firms would continue to be subject to EU27 law and services could continue to be provided between the UK and EU on the basis of the existing passporting arrangements until such time as the UK finally withdraws from the EU – in which case one of the two scenarios described above will apply – unless it revokes its intention to do so.

Finally, the UK could decide to revoke its intention to withdraw from the EU. This would likely only happen for the purposes of holding a second referendum, if a delay is not agreed to unanimously by the EU member states. In this scenario, the status quo in relation to the financial regulatory framework would prevail until the result of that referendum was known and action taken to implement such result.

The programme of reform of the global regulatory framework previously agreed by the G20 Heads of Government in April 2009 has continued to be taken forward throughout 2018. The G20 continues to monitor emerging risks and vulnerabilities in the financial system and has stated that it will take action to address them if necessary.

The FSB has been designated by the G20 as the body responsible for co-ordinating the delivery of the global reform programme in relation to the financial services industry. It has focused particularly on the risks posed by systemically important financial institutions. In 2011, the G20 Heads of Government adopted FSB proposals to reform the regulation of global systemically important financial institutions (G-SIFIs), including global systemically important banks (G-SIBs), such as Barclays Group. In December 2017, the BCBS finalised 'Basel III' (the BCBS international regulatory framework for banks), with the majority of the December 2017 changes expected to be implemented by 1 January 2022, including by regulators in many jurisdictions where Barclays Group operates. Various other measures have been agreed at FSB and BCBS level on capital, including those relating to recovery and resolution planning of CCPs, the identification and management of step-in risk, and TLAC (discussed in detail below).

In December 2018, the Council of the EU and the European Parliament announced they had reached a provisional political agreement on the proposed Risk Reduction Measures package, which includes the CRD V Directive and CRR II Regulation and will transpose many of the Basel III measures into EU law.

Financial regulatory framework

Financial services regulation can broadly be categorised as follows: (a) prudential regulation, which aims to promote safety and soundness of financial institutions and reduce risk in the financial system; (b) recovery and resolution, a key aspect of which is to ensure that G-SIFIs are capable of being resolved without recourse to taxpayer support and minimising market disruption; (c) structural reform, aimed at structurally separating certain wholesale activities (such as proprietary trading) from retail-focused activities (such as taking retail deposits); (d) market infrastructure regulation, aimed at enhancing client protection, financial stability and market integrity; and (e) conduct, culture and other regulation, which includes regulatory initiatives designed to pursue any other aims not falling within the previous categories (such as improving standards of conduct within financial services firms, ensuring the right culture in firms, and protecting personal data).

(a) Prudential regulation

Certain Basel III standards were implemented in EU law through the Capital Requirements Directive IV (CRD IV), which came into effect in 2014 and included new or enhanced requirements for the quality and quantity of capital, liquidity and leverage. Beyond the minimum standards required by CRD IV, the PRA has expected Barclays Group, in common with other major UK banks and building societies, to meet a 7% Common Equity Tier 1 (CET1) ratio at the level of the consolidated group since 1 January 2016.

G-SIBs are subject to a number of additional prudential requirements, including the requirement to hold additional loss-absorbing capacity and additional capital buffers above the level required by Basel III standards. The level of the G-SIB buffer is set by the FSB according to a bank's systemic importance and can range from 1% to 3.5% of risk-weighted assets. The G-SIB buffer must be met with common equity.

In November 2018, the FSB published an update to its list of G-SIBs, maintaining the 1.5% G-SIB buffer that applies to Barclays Group. The additional G-SIB buffer was subject to phase-in arrangements, with 50% of the buffer requirement applying in 2017, 75% in 2018 and 100% in January 2019. Barclays Group is also subject to, among other buffers, a countercyclical capital buffer (CCyB) based on rates determined by the regulatory authorities in each jurisdiction in which Barclays Group maintains exposures. These rates may vary in either direction. On 27 June 2017, the FPC raised the UK CCyB rate from 0% to 0.5% with binding effect from 27 June 2018. In November 2017, the FPC raised the UK CCyB rate from 0.5% to 1% with binding effect from 28 November 2018.

The FPC has a framework for determining a systemic risk buffer at rates between 0% and 3% of risk-weighted assets for ring-fenced bodies and large building societies (SRB firms). The systemic risk buffer is a firm-specific buffer, that is designed to increase the capacity of SRB firms to absorb stress, and which must be met solely with CET1. The framework has applied from 1 January 2019. In the UK, the PRA has implemented the systemic risk buffer framework and requires ring-fenced banks whose groups are already required to meet the requirements under the leverage ratio framework on a consolidated basis, such as Barclays Bank UK PLC, to also meet the requirements on a sub-consolidated basis. The PRA has also recently announced that the systemic risk buffer will be incorporated in the calculation of banks' stress test hurdle rates, which are the target capital ratios set by the regulator, with a view to capturing domestic systemic importance as well as global systemic importance.

Supervision and regulation

Final BCBS standards on securitisation have been implemented under EU law from 1 January 2019, with a one-year grandfathering period for existing transactions. Final BCBS standards on counterparty credit risk, leverage, large exposures and a Net Stable Funding Ratio (NSFR) are being implemented under EU law via the Risk Reduction Measures package.

The BCBS's finalisation of Basel III, noted above, among other things, eliminated model-based approaches for certain categories of risk-weighted assets (RWAs), (for example, operational risk RWAs, CVA volatility and credit risk RWAs for equity exposures), revised the standardised approach's risk weights for a variety of exposure categories, replaced the four current approaches for operational risk (including the advanced measurement approach) with a single standardised measurement approach, established 72.5% of standardised approach RWAs for exposure categories as a floor for RWAs calculated under advanced approaches (referred to as the 'output floor'), and for G-SIBs introduced a leverage ratio buffer in an amount equal to 50% of the applicable G-SIB buffer used for RWA purposes (meaning, for Barclays Group, a leverage ratio buffer of 0.75%). The majority of the final Basel III changes are expected to be implemented commencing 1 January 2022, with a five-year phase-in period for the output floor.

IFRS 9 (an accounting standard that covers accounting for financial instruments) came into force under EU law on 1 January 2018. A separate EU regulation has provided transitional arrangements for mitigating the impact of the introduction of IFRS 9, largely in relation to CET1 capital arising from the expected credit loss accounting measures set out in IFRS 9. The BCBS is continuing to assess whether permanent changes to the recognition of expected credit loss provisions in regulatory capital are necessary, as well as any corresponding changes to the risk-weighting framework.

Stress testing

Barclays Group and certain of its members are subject to supervisory stress testing exercises pursuant to the annual stress testing programmes of the BoE and other regulators. These exercises are designed to assess the resilience of banks to adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. Assessment is on both a quantitative and qualitative basis, the latter focusing on Barclays Group's data provision, stress testing capability including model risk management and internal management processes and controls. Failure to meet requirements of regulatory stress tests, or the failure by regulators to approve the stress test results and capital plans of Barclays Group could result in Barclays Group or certain of its members being required to enhance its capital position or limit capital distributions, to any external holders of its equity or capital or within Barclays Group.

(b) Recovery and Resolution

Stabilisation and resolution framework

An important component of the EU legislative framework is the 2014 Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms. The UK implemented the BRRD through the Bank Recovery and Resolution Order 2014, which amended the Banking Act 2009 (the Banking Act) and the Financial Services and Markets Act 2000 (FSMA), and the Banks and Building Societies (Depositor Preference and Priorities) Order 2014, which amended the Insolvency Act 1986 (among other insolvency legislation).

In November 2016, the European Commission proposed a package of amendments to the BRRD, including the introduction of two new moratorium tools. Political agreement on this package was reached in December 2018. On 28 December 2017, an EU directive came into force harmonising the priority ranking of unsecured debt instruments under national insolvency laws. All member states were required to transpose the directive by 29 December 2018 and it has been transposed into national law in the UK under the Banks and Building Societies (Priorities on Insolvency) Order 2018. Under the Banking Act, UK resolution authorities are empowered to intervene in and resolve a UK financial institution that is no longer viable. Pursuant to these laws, the BoE (in consultation with the PRA and HM Treasury as appropriate) has several stabilisation options where a banking institution is failing or likely to fail: (i) transfer some or all of the securities or business of the bank to a commercial purchaser; (ii) transfer some or all of the property, rights and liabilities of the bank to a 'bridge bank' wholly owned by the BoE or to a commercial purchaser; (iii) transfer the impaired or problem assets to an asset management vehicle to allow them to be managed over time; (iv) cancel or reduce certain liabilities of the institution or convert liabilities to equity to absorb losses and recapitalise the institution; and (v) transfer the banking institution into temporary public ownership. In addition, the BoE may apply for a court insolvency order in order to wind up or liquidate the institution or to put the institution into special administration. When exercising any of its stabilisation powers, the BoE must generally provide that shareholders bear first losses, followed by creditors in accordance with the priority of their claims under normal insolvency proceedings.

In order to enable the exercise of its stabilisation powers, the BoE may impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts, and in some cases to override events of default or termination rights that might otherwise be invoked as a result of a resolution action. In addition, the Banking Act gives the BoE the power to override, vary, or impose conditions or contractual obligations between a UK bank, its holding company and its group undertakings, in order to enable any transferee or successor bank to operate effectively after any of the resolution tools have been applied. There is also power for HM Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use its powers under this regime effectively, potentially with retrospective effect. The Banking Act powers apply regardless of any contractual restrictions and compensation that may be payable.

The BoE's preferred approach for the resolution of Barclays Group is a bail-in strategy with a single point of entry at Barclays PLC. Under such a strategy, Barclays PLC's subsidiaries (including entities within Barclays Bank UK Group) would remain operational while Barclays PLC's eligible liabilities would be written down or converted to equity in order to recapitalise Barclays Group and allow for the continued provision of services and operations throughout the resolution.

In July 2016, the PRA issued final rules on ensuring operational continuity in resolution. The rules apply from 1 January 2019 and require banks to ensure that their operational structures facilitate effective recovery and resolution planning and the continued provision of functions critical to the economy in a resolution scenario.

In June 2018 the BoE finalised its policy on Minimum Requirement for own funds and Eligible Liabilities (MREL) for UK banks and published indicative MREL levels for UK G-SIBs and D-SIBs, including Barclays Group, to be reached in 2019, 2020 and 2022 (see section on TLAC/ MREL below).
Additionally, the BoE finalised its policy on Valuations in Resolution in June 2018 with an expected compliance timeline of 1 January 2021.

The PRA has made rules that require authorised firms to draw up recovery plans and resolution packs, as required by the BRRD. Recovery plans are designed to outline credible actions that authorised firms could implement in the event of severe stress in order to restore their business to a stable and sustainable condition. The resolution pack contains detailed information on the group, and its significant legal entities (including, in the case of Barclays Group, material subsidiaries within Barclays Bank UK Group) which will be used to develop resolution strategies for that firm, assess its current level of resolvability against the strategy, and to inform work on identifying barriers to the implementation of operational resolution plans. In the UK, recovery and resolution planning (RRP) work is considered part of continuing supervision. Removal of potential impediments to an orderly resolution of Barclays Group or one or more of its subsidiaries is considered as part of the BoE's and PRA's supervisory strategy for each firm, and the PRA can require firms to make significant changes in order to enhance resolvability. Barclays Group currently provides the PRA with a recovery plan annually and with a resolution pack as requested.

In December 2018, the BoE and PRA released a package of consultations setting out how they propose to increase transparency and accountability and clarify the responsibilities on firms with regards to resolution. The package comprises three main components: (i) a BoE Consultation Paper (CP) which proposes how the BoE, as resolution authority, intends to assess individual banks' resolvability; (ii) a PRA CP which contains proposed requirements for banks to assess their preparations for resolution, identifying any risks to implementation and their plans to address these; (iii) proposals for future public disclosures.

The final policy will apply to Barclays Group when published.

TLAC and MREL
The BRRD requires competent authorities to impose a Minimum Requirement for own funds and Eligible Liabilities (MREL) on financial institutions to facilitate their orderly resolution without broader financial disruption or recourse to public funds. In November 2015, the FSB finalised its proposals to enhance the loss-absorbing capacity of G-SIBs to ensure that there is sufficient loss-absorbing and recapitalisation capacity available in resolution to implement an orderly resolution which minimises the impact on financial stability, ensures the continuity of critical functions and avoids exposing taxpayers to losses. To this end, the FSB has set a new minimum requirement for 'total loss-absorbing capacity' (TLAC). As the TLAC standard requires a certain amount of those loss-absorbing resources to be committed to subsidiaries or sub-groups that are located in host jurisdictions and deemed material for the resolution of the G-SIB as a whole, the FSB published guiding principles on internal TLAC on 6 July 2017. These provide guidance on the size and composition of the internal TLAC requirement, cooperation and co-ordination between home and host authorities and the trigger mechanism for internal TLAC.

The EU is implementing the TLAC standard (including internal TLAC) via the MREL requirement and the relevant amendments are contained in the Risk Reduction Measures package. Under the BoE's statement of policy on MREL, the BoE will set MREL for UK G-SIBs as necessary to implement the TLAC standard and institution or group-specific MREL requirements will depend on the preferred resolution strategy for that institution or group. Internal MREL for operating subsidiaries will be scaled within a 75-90% range of the external requirement that would apply to the subsidiary if it were a resolution entity. The starting point for the scalar will be 90% for ring-fenced bank sub-groups.

The MREL requirements are being phased in as from 1 January 2019 and will be fully implemented by 1 January 2022, at which time G-SIBs with resolution entities incorporated in the UK, including Barclays Group, will be required to meet an MREL equivalent to the higher of: (i) two times the sum of its Pillar 1 and Pillar 2A requirements; or (ii) the higher of two times its leverage ratio or 6.75% of leverage exposures. However, the PRA plans to review the MREL calibration by the end of 2020, including assessing the proposal for Pillar 2A recapitalisation which may drive a different 1 January 2022 MREL requirement than currently proposed. In June 2018, the BoE published indicative MREL levels for UK G-SIBs, including Barclays Group, to be reached in 2020 and 2022.

In October 2016, the BCBS published its final standard on the prudential treatment of banks' investments in TLAC instruments issued by other institutions, confirming that internationally active banks (both G-SIBs and non-G-SIBs) must deduct their holdings of TLAC instruments that do not otherwise qualify as regulatory capital from their own Tier 2 capital. Where the investing bank owns less than 10% of the issuing bank's common shares, TLAC holdings are to be deducted from Tier 2 capital only to the extent that they exceed 10% of the investing bank's common equity (or 5% for non-regulatory capital TLAC holdings). Below this threshold, holdings would instead be subjected to risk-weighting. G-SIBs may only apply risk-weighting to non-regulatory capital TLAC holdings by the 5% threshold where those holdings are in the trading book and are sold within 30 business days. The EU's Risk Reduction Measures package requires firms to deduct external MREL holdings from equivalent MREL capital of the firm.

Bank Levy and FSCS
The BRRD requires EU member states to establish a pre-funded resolution financing arrangement with funding equal to 1% of covered deposits by 31 December 2024 to cover the costs of bank resolutions. Where the amount of such pre-funding is insufficient, the BRRD requires that EU member states raise subsequent contributions. The UK government raises both pre-funded and subsequent contributions that would be required were the pre-funded contributions not to cover costs or other expenses incurred by use of the resolution funds by way of a tax on the balance sheets of banks known as the 'Bank Levy'.

In addition, the UK has a statutory compensation fund called the Financial Services Compensation Scheme (FSCS), which is funded by way of annual levies on most financial services firms authorised under FSMA. The levies consist of a management expenses levy (which funds the costs of running the FSCS) and a compensation costs levy (which funds the costs incurred by the FSCS in paying compensation).

(c) Structural reform
Recent developments in banking law and regulation in the UK have included legislation designed to ring-fence the retail and smaller deposit-taking businesses of large banks. The Financial Services (Banking Reform) Act 2013 put in place a framework for this ring-fencing and secondary legislation passed in 2014 elaborated on the operation and application of the ring-fence. Ring-fencing requires, among other things, the separation of the retail and smaller deposit-taking business activities of UK banks in the UK and branches of UK banks in the European Economic Area (EEA) into a legally distinct, operationally separate and economically independent entity, which is not permitted to undertake a range of activities. Ring-fencing rules have been published by the PRA, further determining how ring-fenced banks will be permitted to operate. Further rules published by the FCA set out the disclosures that non-ring-fenced banks are required to make to prospective account holders of non-ring-fenced banks who are individuals.

(d) Market infrastructure regulation
In recent years, regulators as well as global-standard setting bodies such as IOSCO have focused on improving transparency and reducing risk in markets, particularly risks related to over-the-counter (OTC) transactions. This focus has resulted in a variety of new regulations across the G20 countries and beyond that require or encourage on-venue trading, clearing, posting of margin and disclosure of information related to many derivatives transactions. Some of the most significant developments are described below.

The Markets in Financial Instruments Directive and Markets in Financial Instruments Regulation (collectively referred to as MiFID II) have largely been applicable since 3 January 2018. Changes introduced by MiFID II include: the introduction of a new type of trading venue (the organised trading facility), capturing non-equity trading that falls outside the MiFID I regime; the strengthening of conduct of business requirements, including in relation to conflicts of interest; the expansion of the concept of, and requirements applicable to, firms which systematically trade against proprietary capital (systematic internalisers); and increased obligations on firms to secure best execution for their clients. Additionally, MiFID II mandates a trading obligation for certain types of cleared derivatives.

MiFID II strengthens investor protections, imposes new curbs on high frequency and commodity trading, increases pre- and post-trade transparency reporting and introduces a new regime for third country (non-EU) firms. MiFID II also includes new requirements relating to non-discriminatory access to trading venues, CCPs and benchmarks, research unbundling and harmonised supervisory powers and sanctions across the EU.

The EU Benchmarks Regulation came into force in June 2016. Although some provisions have applied since 2016, the majority of provisions have applied since 3 January 2018, subject to transitional provisions. This regulation applies to the administration, contribution of data to and use of benchmarks within the EU. Financial institutions within the EU will be prohibited from using benchmarks unless their administrators are authorised, registered or otherwise recognised in the EU. This may impact the ability of Barclays Group to use certain benchmarks in the future. For example, EURIBOR will, as currently stands, no longer be compliant with the Benchmarks Regulation on 1 January 2020, and the FCA has stated that it does not intend to support LIBOR after the end of 2021. International initiatives are therefore underway to develop alternative benchmarks and backstop arrangements. However, adapting processes and systems to transition to these new benchmarks is likely to be a very time-consuming and costly task on an industry-wide basis.

(e) Conduct, culture and other regulation
Conduct and culture
On 7 March 2016, the PRA and FCA introduced measures to increase the individual accountability of senior managers and other covered individuals in the banking sector. The new regime comprises: the 'Senior Managers Regime', which applies to a limited number of individuals with senior management responsibilities within a firm; the 'Certification Regime', which is intended to assess and monitor the fitness and propriety of a wider range of employees who could pose a risk of significant harm to the firm or its customers; and conduct rules that individuals subject to either regime must comply with. From March 2017, the conduct rules have applied more widely to other staff of firms within the scope of the regime. The regime will be expanded to apply to all firms authorised under FSMA from 9 December 2019. 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 Banking Act also amended FSMA to allow 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.

Our regulators have also enhanced their focus on the promotion of cultural values as a key area for banks, although they generally view the responsibility for reforming culture as primarily sitting with the industry.

Strategic review of retail banking business models
The FCA conducted a strategic review of retail banking business models throughout 2017 and 2018 and published its final report in December 2018. The FCA has used the analysis to inform its view of emerging scenarios in retail banking and their impact on business models and consumers. It concluded that increased competition has the scope to improve outcomes for many consumers but it takes time. As a result of this review the FCA will initiate work in payment services, SME banking and monitoring of retail banking business models which could impact Barclays Bank UK Group over time.

Data protection and PSD2
The harmonisation of the European privacy regime through the introduction of the General Data Protection Regulation (GDPR) was a major focus in 2018. However, new laws have also recently been introduced in California, the Cayman Islands, and Brazil, and existing laws in Japan, Guernsey, Jersey and the Isle of Man have been updated. The global nature of our business and IT infrastructure means personal information may be made available or stored in countries other than where it was originally collected. The proper handling and protection of personal data is very important to our clients, employees and to regulators, and there can be considerable regulatory fines for breaches (for example, up to 4% of global turnover under GDPR).

A number of recent developments have indicated a clear political and regulatory desire to make customer account information and transactional services more easily accessible to customers and parties providing services to them, such as the revised Payment Services Directive (PSD2) and the Open Banking initiative. PSD2 replaced the previous Payment Services Directive and, with respect to certain requirements, has a wider scope, applying transparency and information requirements to payment transactions in all currencies where the provider of at least one leg of the payment service is located in the EU. PSD2 also requires banks which provide accounts to enable access to those accounts through dedicated technology to allow third parties to provide account information and payment initiation services. The requirements relating to this technology will come into effect in September 2019.

Cyber security and operational resilience
Our regulators have been increasingly focused on cyber security risk management and operational resilience for banking organisations. This has resulted in a number of proposed laws, regulations and other requirements that necessitate the implementation of a variety of increased controls

and enhancement activities for regulated Barclays Bank UK Group entities. These include, among others, the adoption of cyber security policies and procedures meeting specified criteria, minimum required security measures, controls and procedures for enhanced reporting and public disclosures, compliance certification requirements, and other cyber and information risk governance measures. These increased controls will enhance our security posture and increase our ability to protect the organisation and our customers. Such measures may result in increased technology and compliance costs for Barclays Bank UK Group.

Sanctions and financial crime

The UK Bribery Act 2010 introduced a new form of corporate criminal liability focused broadly on a company's failure to prevent bribery on its behalf. In practice, the legislation requires Barclays Bank UK Group to have adequate procedures to prevent bribery which, due to the extra-territorial nature of the status, makes this both complex and costly.

On 30 September 2017, the Criminal Finances Act 2017 introduced new corporate criminal offences of failing to prevent the facilitation of UK and overseas tax evasion. It requires Barclays Bank UK Group to have reasonable prevention procedures in place to prevent the criminal facilitation of tax evasion by persons acting for, or on behalf of, any entity in Barclays Bank UK Group.

In some cases, US state and federal regulations addressing sanctions, money laundering and other financial crimes may impact entities, persons or activities located outside the US, including Barclays PLC and its subsidiaries. The enforcement of these regulations has been a major focus of US state and federal government policy relating to financial institutions to ensure compliance could have serious legal, financial and reputational consequences for the institution.

Financial statements
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Detailed analysis of our statutory accounts, independently audited and providing in-depth disclosure on the financial performance of the Barclays Bank UK Group.

Independent Auditor's report to the members of Barclays Bank UK PLC

1 Our opinion is unmodified

We have audited the financial statements of Barclays Bank UK PLC ("the Parent company") and its subsidiaries (together "the Group) for the year ended 31 December 2018 which comprise the consolidated and Parent company balance sheets as at 31 December 2018 and the consolidated income statement and statement of comprehensive income, the consolidated and Parent company cash flow statements and statements of changes in equity for the year then ended, and the related notes, including the accounting policies in note 1.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Board Audit Committee.

We were first appointed as auditor by the directors on 21 March 2018 for the audit of the financial year ended 31 December 2017. The period of total uninterrupted engagement is for the two financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter		*How our audit addressed the key audit matter*
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 17 (Directors' Report), and page 26 (Material existing and emerging risks)	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans and advances to customers below and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's and Parent company's future prospects and performance. In addition, we are required to consider the directors' statement that the Annual Report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Group's and Parent company's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's and Parent company's business and financial resources comparing this with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** When addressing impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted at a rate other than the original effective interest rate, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in

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<tr><td></td><td></td><td>the strategic report, comparing the overall picture against our understanding of the risks.

Our results:
As reported under impairment of loans and advances to customers, we found the resulting estimates and related disclosures of impairment of loans and advances to customers, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</td></tr>
<tr><td>Impairment allowances on loans and advances at amortised cost, including off-balance sheet elements of the allowance

Refer to page 125 (accounting policy on accounting for the impairment of financial assets) and page 48 (credit risk disclosures), and page 125 (financial disclosure note 8 Credit impairment charges and other provisions)</td><td>Subjective estimate
IFRS 9 was implemented by the Group and Parent company on 1 January 2018. This new and complex standard requires the Group and Parent company to recognise expected credit losses (“ECL”) on financial instruments which involves significant judgement and estimates. During the year, ECL provisions increased from £0 million as at 1 January 2018 to £2,927 million as at 31 December 2018 (£2,936 million due to the acquisition of the UK banking business from Barclays Bank PLC). The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group and Parent company’s implementation of IFRS 9 are:

▪ Economic scenarios – IFRS 9 requires the Group and Parent company to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them especially for the credit cards, mortgages, and consumer lending portfolios.

▪ Significant Increase in Credit Risk (“SICR”) – For the credit cards and consumer loans portfolios the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group’s and Parent company’s ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.

▪ Model estimations – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default (“PD”), Loss Given Default (“LGD”), and Exposures at Default (“EAD”). The PD models used in the credit card and consumer loans portfolios are the key drivers of the Group’s and Parent company’s ECL results and are therefore the most significant judgemental aspect of the Group’s and Parent company’s ECL modelling approach.

▪ Qualitative adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. They represent approximately 15% net of the ECL. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts especially in relation to the credit card, consumer loan, and business banking portfolios.</td><td>Our procedures included:

• Controls testing: We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process.

Key aspects of our controls testing involved the following:

o For the relevant portfolios, testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models;
o Testing the design and operating effectiveness of the key controls over the authorisation and application of the SICR criteria;
o Evaluating controls over model monitoring and validation;
o Evaluating controls over authorisation and calculation of post model adjustments and management overlays; and
o Testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities.

• Our financial risk modelling expertise: For the credit card and consumer loans portfolios we involved our own financial risk modelling specialists in evaluating the appropriateness of the Group’s and Parent company’s IFRS 9 impairment methodologies (including the SICR criteria used). We used our experience to independently assess probability of default, loss given default and exposure at default assumptions. For a sample of models we assessed the reasonableness of the model predictions by comparing them against actual results.

• Our economic scenario expertise: We involved our own economic specialists to assist us in assessing the appropriateness of the Group’s and Parent company’s methodology for determining the economic scenarios used and the probability weightings applied to them. We also assessed key economic variables used which included agreeing samples of economic variables to external sources as well as the overall reasonableness of the economic</td></tr>
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	The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The credit risk section of the financial statements discloses the sensitivities estimated by the Group and Parent company. **Disclosure quality** The disclosures regarding the Group's and Parent company's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.	forecasts by comparing the Group's and Parent company's forecasts to our own modelled forecasts with a focus on the credit cards, mortgages and consumer lending portfolios. As part of this work we assessed the reasonableness of the Group's and Parent company's considerations of the ECL impact of economic uncertainty, including Brexit. **Test of details:** Key aspects of our testing involved: o Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, and PD assumptions applied; o Re-performing key aspects of the Group's and Parent company's SICR determinations; o Assessing model predictions against actual results; and o Selecting a sample of post model adjustments, considering the size and complexity of management overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample back to source data for credit cards, consumer lending and business banking portfolios. • **Assessing transparency:** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear. **Our results:** The results of our testing were satisfactory and we considered the ECL charge, provision recognised, and the related disclosures to be acceptable.
Conduct redress costs (PPI) Refer to page 153 (accounting policy on accounting for provisions), and page 153 (financial disclosure note 23 Provisions)	**Subjective estimate** The calculation of the provision for Payment Protection Insurance ("PPI") redress costs for the Group and Parent company requires the Directors to determine a number of key inputs. The determination of these is judgemental and requires the Directors to consider a range of information. The most significant input into the PPI provision calculation is the future complaint flow and that is where we have focussed our procedures. The Directors have developed a model which calculates the expected future complaint flow and associated redress cost. A key factor impacting the period over which the model forecasts complaint flows was the introduction of a Financial Conduct Authority ("FCA") timebar for processing new complaints. The effective date of the timebar is August 2019, and prior to that the FCA is running a consumer communications campaign to give potential complainants notice of the timebar.	Our procedures included: • **Historical comparison:** We evaluated the assumptions used, particularly those in relation to future complaint flow which led to an adjustment to provision estimates in 2018; • **Enquiry of regulators:** We inspected correspondence with the FCA and PRA to identify any regulatory observations on the future complaint flow. We also made enquiries of the FCA discussing the nature of the matters contained in regulatory correspondence that could materially affect the level of provisions held; • **Controls testing:** We tested the design and operating effectiveness of the key controls over capturing of historical complaints data and estimating the future complaint flow volumes; • **Sensitivity analysis:** We considered the sensitivity of the model to variations in the future complaint flow. We also considered the

	The Directors have assessed the appropriateness of the provision with reference to the expected impact of this timebar and also in the context of the historical observation across the industry in recent years that the complaint flow has always been greater than expected. The effect of these matters is that, as part of our risk assessment, we determined that PPI provision costs have significant estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** The related PPI disclosures provide the key assumptions underpinning the calculation of the future complaint flow and sensitivity of the provision to the flow and are therefore key to understanding the judgement which has been applied.	appropriateness of the scenarios used to model the potential range of future complaint flows, with particular focus on the way the impact of the timebar and FCA communication campaign have been determined. We also considered the sensitivity of the model to variations in the future complaint flow by inspecting the calculation methodology and challenging the key assumptions using our industry knowledge; • **Independent re-performance:** We built our own model to allow us to determine a range of potential future complaint flows under multiple independently selected scenarios and used these to assess the appropriateness of the Group's and Parent company's point estimate. We developed a number of these scenarios using regression analysis of Barclays' historical complaint data. Where there were differences in the inputs and ranges we challenged the Group's and Parent company's rationale for these and assessed whether they were reasonable. We also used our model to understand the effect of these ranges on the potential future redress cost; and • **Assessing transparency:** We assessed whether the disclosures appropriately disclose and address the significant uncertainty which exists when estimating the future complaint flow. As a part of this, we re-performed the sensitivity analysis that is disclosed. **Our results:** The results of our testing were satisfactory and we considered the liability recognised, and sensitivity disclosures made, to be acceptable.
Valuation of financial instruments held at fair value Refer to page 138 (accounting policy on accounting for financial assets and liabilities), and page 138 (financial disclosure note 16 Fair value of financial instruments)	**Subjective valuation** The fair value of the Group's and Parent company's financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by management and the use of assumptions, estimates and valuation models. Where significant pricing inputs are unobservable management has no reliable, relevant market data available in determining the fair value and hence estimation uncertainty can be high. These financial instruments are classified as Level 3. Within this Level 3 population the fair value instrument portfolio in the Group and Parent company with the most significant judgement is the Education, Social Housing and Local Authority (ESHLA) loan portfolio – as at 31 December 2018 the Group and Parent company has outstanding ESHLA loans of £3.9 billion which require significant judgement in the valuation due to the long dated nature of the portfolio, the lack of a secondary market in the relevant loans and unobservable loan spreads. The effect of these matters is that, as part of our risk assessment, we determined that the subjective estimates in fair value measurement of the above portfolios have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: • **Control testing:** We tested the design and operating effectiveness of key controls relating specifically to the ESHLA portfolio. These included: o Controls over price verification (IPV), performed by a control function, of key inputs, including completeness of positions and valuation inputs subject to IPV; o For ESHLA, we tested controls over the gilt asset swap curve and credit spreads. For the long dated portfolios we tested material risk parameters used in valuation models; o Controls over fair value adjustments (FVA). For ESHLA these related to pre-payments. In addition we tested funding and credit adjustments for all significant risk portfolios; o Controls over the validation, completeness, implementation and usage of valuation models. This included controls over assessment of model limitations and assumptions; and

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	Disclosure quality The IFRS 13 fair value measurement disclosures are key to explaining the valuation techniques, key judgements, assumptions and material inputs. The financial statements, note 16, includes disclosure of sensitivity of valuation inputs to fair value measurement by the Group.	o Controls over the levelling classification applied to trades within these portfolios in line with IFRS 13 disclosure requirements. • **Independent re-performance:** With the assistance of our own valuation specialists we independently re-priced a selection of trades from the ESHLA portfolio and challenged management on the valuations where they were outside our expected tolerance. • **Methodology choice:** In the context of observed industry practice, our own valuation specialists assisted us in challenging the appropriateness of significant models and methodologies used in calculating fair values, risk exposures, appropriateness of risk factors, and in calculating FVAs; • **Historical comparison:** We inspected significant gains and losses on trade exits or restructurings and challenged whether these data points indicate elements of fair value not incorporated in the current valuation methodologies. • We inspected P&L generated throughout the period from movements in unobservable pricing inputs to challenge whether any P&L generated was appropriate. **Our results:** The results of our testing were satisfactory and we considered the fair value of level 3 financial instrument assets and liabilities recognised to be acceptable.
User Access Management ("UAM") Refer to page 41 (Operational risk management disclosures)	**Control performance** The Group's and Parent company's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access management controls are an important component of the General IT Control environment assuring that unauthorised access to systems does not impact the effective operation of the automated controls in the financial reporting processes. In prior years key user access management controls were reported as not consistently implemented and effectively operated across the Group. Ineffective controls included developer access to production, logging/monitoring of user activities and segregation of duties. A series of remediation programmes was completed to address previously identified control deficiencies. The Group and Parent company have also implemented further compensating controls to address the issues raised in the current year, most of them relating to user access management. If the above controls for user access management are deficient and not remediated or adequately mitigated the pervasive nature of these controls may undermine our ability to place some reliance on automated and IT dependent controls in our audit.	The Barclays Group adopts a centralised approach to IT access controls, thus our work was performed in conjunction with the Barclays Group auditor. Our procedures included: • **Control testing**: We tested the design and operating effectiveness of key controls over user access management, including controls over: o Authorising access for new joiners; o Removal of user access rights on a timely basis; o Inappropriate privileged and developer access to production systems, the procedures to assess potential use, and the removal of these access rights; o Segregation of duties including access to multiple systems that could circumvent segregation controls; and o Re-certification of user access rights. • **Control re-performance:** To assess whether additional detective compensating controls adequately address the risk of unauthorised

		access, we re-performed on a sample basis management's assessment of potential unauthorised access by privileged accounts and users, whose access rights were not recertified. **Our results:** Our testing did not identify unauthorised user activities in the systems relevant to financial reporting which would have required us to expand the extent of our planned detailed testing.

3 Our application of materiality and an overview of the scope of our audit

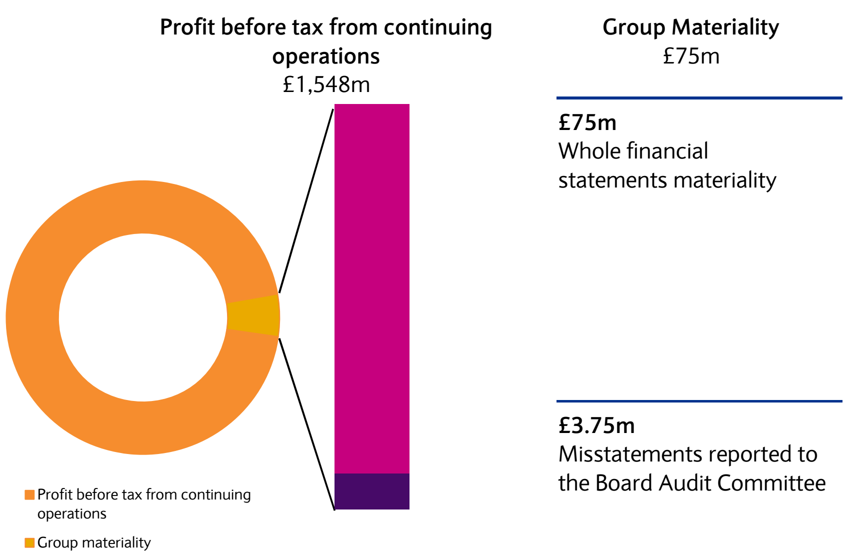
Materiality

On 1 April 2018 Barclays Bank UK PLC acquired the UK banking business of Barclays Bank PLC to meet the regulatory ring-fencing requirement under the Financial Services (Banking Reform) Act 2013. As a result of this the scope of our audit and our materiality levels have changed from the 2017 audit.

Materiality for the Group financial statements as a whole was set at £75 million, determined with reference to a benchmark of profit before tax from continuing operations of which it represents 4.8%. In 2017, Group financial statements were not prepared.

Materiality for the Parent company financial statements as a whole was set at £72 million, determined with reference to a benchmark of profit before tax from continuing operations, of which it represents 4.6%. In 2017, materiality for the Parent company financial statements as a whole was set at £0.8 million, determined with reference to a benchmark of total assets, of which it represented 0.5%.

We agreed to report to the Board Audit Committee any corrected or uncorrected identified misstatements exceeding £3.75 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.



Scope – general
The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above.

4 We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Parent company or the Group or to cease their operations, and as they have concluded that the Parent company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may

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result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Parent company's business model and analysed how those risks might affect the Group's and Parent company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and the Parent company's available financial resources over this period were:

- Availability of funding and liquidity in the event of a market wide stress scenario including the impact of Brexit; and
- Impact on regulatory capital requirements in the event of an economic slowdown / recession.

As these were risks that could potentially cast significant doubt on the Group's and the Parent company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on capital markets resulting in an impact on available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and directors' report:

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully on page 17, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group and Parent company are subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and Parent company are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's and Parent company's licence to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct , money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Group's and Parent company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent company and the Parent company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Bingham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

20 February 2019

Consolidated financial statements

Consolidated income statement

For the year ended 31 December	Notes	2018 £m	2017 £m
Interest income	4	5,267	-
Interest expense	4	(830)	-
Net interest income		4,437	-
Fee and commission income	5	1,315	27
Fee and commission expense	5	(273)	-
Net fee and commission income		1,042	27
Net trading income	6	30	-
Net investment income	7	86	-
Other income		11	-
Total income		5,606	27
Credit impairment charges and other provisions	8	(624)	-
Net operating income		4,982	27
Staff costs	29	(1,016)	-
Infrastructure costs	9	(307)	-
Administration and general expenses	9	(2,033)	(8)
Provisions for litigation and conduct	23	(78)	-
Operating expenses		(3,434)	(8)
Profit before tax		1,548	19
Taxation	10	(433)	(4)
Profit after tax		1,115	15
Attributable to:			
Equity holders of the parent		1,010	15
Other equity instrument holders		105	-
Profit after tax		1,115	15

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	2018 £m	2017 £m
Profit after tax	**1,115**	15
Other comprehensive income/(loss) that may be recycled to profit or loss:		
Fair value through other comprehensive income reserve		
Net losses from changes in fair value	(73)	-
Net gains transferred to net profit on disposal	(27)	-
Net losses transferred to net profit due to fair value hedging	72	-
Tax	11	-
Cash flow hedging reserve		
Net gains from changes in fair value	26	-
Net losses transferred to net profit	1	-
Tax	(7)	-
Other comprehensive income that may be recycled to profit or loss	3	-
Other comprehensive income/(loss) not recycled to profit or loss:		
Tax	-	-
Other comprehensive income not recycled to profit or loss	-	-
Other comprehensive income for the year	3	-
Total comprehensive income for the year	**1,118**	15

Consolidated financial statements
Consolidated balance sheet

As at 31 December	Notes	2018[a] £m	2017 £m
Assets			
Cash and balances at central banks		**40,669**	-
Cash collateral and settlement balances		**3,349**	-
Loans and advances at amortised cost[b]	18	**188,565**	53
Reverse repurchase agreements and other similar secured lending		**1,759**	-
Trading portfolio assets	12	**151**	-
Financial assets at fair value through the income statement	13	**3,880**	-
Derivative financial instruments	14	**241**	-
Financial investments		**-**	5
Financial assets at fair value through other comprehensive income[c]	15	**6,710**	-
Goodwill and intangible assets	20	**3,534**	-
Property, plant and equipment	19	**498**	-
Deferred tax assets	10	**792**	-
Other assets		**1,157**	2
Total assets		**251,305**	60
Liabilities			
Deposits at amortised cost	18	**197,485**	-
Cash collateral and settlement balances		**239**	-
Repurchase agreements and other similar secured borrowing		**11,978**	-
Debt securities in issue		**11,172**	-
Subordinated liabilities	26	**7,548**	-
Trading portfolio liabilities	12	**1,269**	-
Derivative financial instruments	14	**419**	-
Current tax liabilities	10	**984**	5
Other liabilities	22	**1,888**	8
Provisions	23	**1,380**	1
Total liabilities		**234,362**	14
Equity			
Called up share capital and share premium	27	**5**	5
Other equity instruments	27	**2,070**	-
Other reserves	28	**76**	20
Retained earnings		**14,792**	21
Total equity		**16,943**	46
Total liabilities and equity		**251,305**	60

The Board of Directors approved the financial statements on pages 106 to 169 on 20 February 2019.

Ashok Vaswani
Group Chief Executive

Angela Anna Cross
Group Finance Director

Notes
a Barclays Bank UK PLC acquired the UK banking business from Barclays Bank PLC on 1 April 2018.
b On 1 January 2018, £53m of loans and advances to banks were reclassified to loans and advances at amortised cost, due to changes to the balance sheet presentation as at 31 December 2017. Further detail on the adoption of new accounting policies can be found in Note 1, Basis of preparation on pages 114 to 118 and the Credit risk disclosure on page 33.
c Following the adoption of IFRS 9 on 1 January 2018, the transitional impact of which was immaterial, £5m of financial investments were reclassified to financial assets at fair value through other comprehensive income. Further detail on the adoption of new accounting policies can be found in Note 1, Basis of preparation on pages 114 to 118 and the Credit risk disclosure on page 33.

Consolidated statement of changes in equity

	Called up share capital and share premium[a]	Other equity instruments[a]	Fair value through other comprehensive income reserve[b]	Cash flow hedging reserve[b]	Other reserves and other shareholders' equity[b]	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance as at 31 December 2017	5	-	-	-	20	21	46
Effects of changes in accounting policies	-	-	-	-	-	-	-
Balance as at 1 January 2018	5	-	-	-	20	21	46
Profit after tax	-	105	-	-	-	1,010	1,115
Financial assets at fair value through other comprehensive income	-	-	(17)	-	-	-	(17)
Cash flow hedges	-	-	-	20	-	-	20
Total comprehensive income for the year	-	105	(17)	20	-	1,010	1,118
Issue of new ordinary shares	13,044	-	-	-	-	-	13,044
Equity settled share schemes	-	-	-	-	-	19	19
Net equity impact of the UK banking business transfer	-	2,070	(16)	-	69	46	2,169
Capital reorganisation	(13,044)	-	-	-	-	13,044	-
Other equity instruments coupons paid	-	(105)	-	-	-	28	(77)
Vesting of employee share schemes	-	-	-	-	-	(10)	(10)
Dividends paid	-	-	-	-	-	(350)	(350)
Capital contribution from Barclays Bank PLC	-	-	-	-	-	983	983
Other reserve movements	-	-	-	-	-	1	1
Balance as at 31 December 2018[c]	5	2,070	(33)	20	89	14,792	16,943
Balance as at 1 January 2017	-	-	-	-	-	-	-
Profit after tax	-	-	-	-	-	15	15
Total comprehensive income for the year	-	-	-	-	-	15	15
Issue of new ordinary shares	5	-	-	-	-	-	5
Capital contribution from Barclays Bank PLC	-	-	-	-	-	6	6
Other reserve movements	-	-	-	-	20	-	20
Balance as at 31 December 2017	5	-	-	-	20	21	46

Notes
a For further details, refer to Note 27.
b For further details, refer to Note 28.
c Barclays Bank UK PLC acquired the UK banking business from Barclays Bank PLC on 1 April 2018.

Consolidated financial statements
Consolidated cash flow statement

For the year ended 31 December	Notes	2018 £m	2017 £m
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		1,548	19
Adjustment for non-cash items:			
Allowance for impairment		624	-
Depreciation, amortisation and impairment of property, plant, equipment and intangibles		50	-
Other provisions		104	-
Net loss on disposal of investments and property, plant and equipment		4	-
Other non-cash movements		(43)	-
Changes in operating assets and liabilities			
Net (increase) in cash collateral and settlement balances		(130)	-
Net (increase) in loans and advances at amortised cost		(4,022)	-
Net (increase) in reverse repurchase agreements and other similar lending		(421)	-
Net increase in deposits and debt securities in issue		6,532	-
Net (decrease) in repurchase agreements and other similar borrowing		(171)	-
Net (increase) in derivative financial instruments		(5,854)	-
Net (increase) in trading assets		(151)	-
Net (decrease) in trading liabilities		(496)	-
Net decrease in financial assets and liabilities at fair value		1,736	-
Net decrease in other assets		1,852	-
Net (decrease) in other liabilities		(1,291)	(15)
Corporate income tax paid		(128)	(1)
Net cash from operating activities		(257)	3
Net cash acquired from the acquisition of the UK banking business		45,940	-
Purchase of financial assets at fair value through other comprehensive income		(8,483)	44
Proceeds from sale or redemption of financial assets at fair value through other comprehensive income		7,584	-
Purchase of property, plant and equipment and intangibles		(40)	-
Proceeds from sale of property, plant and equipment and intangibles		2	-
Net cash from investing activities		45,003	44
Dividends paid and other coupon payments on equity instruments		(455)	-
Vesting of employee share schemes		(10)	-
Capital contribution from Barclays Bank PLC		-	6
Net cash from financing activities		(465)	6
Net increase in cash and cash equivalents		44,281	53
Cash and cash equivalents at beginning of year		53	-
Cash and cash equivalents at end of year		44,334	53
Cash and cash equivalents comprise:			
Cash and balances at central banks		40,669	-
Loans and advances to banks with original maturity less than three months		491	53
Cash collateral and settlement balances with banks with original maturity less than three months		3,174	-
		44,334	53

Interest received by Barclays Bank UK Group was £5,267m (2017: £nil) and interest paid by Barclays Bank UK Group was £830m (2017: £nil).

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.

Financial statements of Barclays Bank UK PLC
Parent company accounts

Balance sheet

As at 31 December	Notes	2018[a] £m	2017 £m
Assets			
Cash and balances at central banks		**40,664**	-
Cash collateral and settlement balances		**3,364**	-
Loans and advances at amortised cost[b]	18	**188,606**	33
Reverse repurchase agreements and other similar secured lending		**1,759**	-
Trading portfolio assets	12	**151**	-
Financial assets at fair value through the income statement	13	**3,880**	-
Derivative financial instruments	14	**241**	-
Financial investments		**-**	5
Financial assets at fair value through other comprehensive income[c]	15	**6,710**	-
Investment in subsidiaries		**463**	122
Goodwill and intangible assets	20	**3,386**	-
Property, plant and equipment	19	**498**	-
Deferred tax assets	10	**790**	-
Other assets		**939**	-
Total assets		**251,451**	160
Liabilities			
Deposits at amortised cost		**199,031**	-
Cash collateral and settlement balances		**239**	-
Repurchase agreements and other similar secured borrowing		**11,978**	-
Debt securities in issue		**9,912**	-
Subordinated liabilities	26	**7,548**	-
Trading portfolio liabilities	12	**1,269**	-
Derivative financial instruments	14	**436**	-
Current tax liabilities	10	**990**	-
Other liabilities	22	**1,676**	1
Provisions	23	**1,348**	-
Total liabilities		**234,427**	1
Equity			
Called up share capital and share premium	27	**5**	5
Other equity instruments	27	**2,070**	-
Other reserves	28	**178**	121
Retained earnings		**14,771**	33
Total equity		**17,024**	159
Total liabilities and equity		**251,451**	160

The Board of Directors approved the financial statements on pages 111 to 113 on 20 February 2019.

Ashok Vaswani
Group Chief Executive

Angela Anna Cross
Group Finance Director

Notes
a Barclays Bank UK PLC acquired the UK banking business from Barclays Bank PLC on 1 April 2018.
b On 1 January 2018, £33m of loans and advances to banks were reclassified to loans and advances at amortised cost, due to changes to the balance sheet presentation as at 31 December 2017. Further detail on the adoption of new accounting policies can be found in Note 1, Basis of preparation on pages 114 to 118 and the Credit risk disclosure on page 33.
c Following the adoption of IFRS 9 on 1 January 2018, the transitional impact of which was immaterial, £5m of financial investments were reclassified to financial assets at fair value through other comprehensive income. Further detail on the adoption of new accounting policies can be found in Note 1, Basis of preparation on pages 114 to 118 and the Credit risk disclosure on page 33.
d 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 for the Bank is a profit after tax for the year ended 31 December 2018 of £1,126m (2017: £14m).

Statement of changes in equity

	Called up share capital and share premium £m	Other equity instruments £m	Other reserves and other shareholders' equity £m	Retained earnings £m	Total equity £m
Balance as at 31 December 2017	**5**	**-**	**121**	**33**	**159**
Effects of changes in accounting policies	-	-	-	-	-
Balance as at 1 January 2018	**5**	**-**	**121**	**33**	**159**
Profit after tax	-	105	-	1,021	1,126
Financial assets at fair value through other comprehensive income	-	-	(17)	-	(17)
Cash flow hedges	-	-	20	-	20
Total comprehensive income for the year	**-**	**105**	**3**	**1,021**	**1,129**
Issue of new ordinary shares	13,044	-	-	-	13,044
Equity settled share schemes	-	-	-	19	19
Net equity impact of the UK banking business transfer	-	2,070	54	46	2,170
Capital reorganisation	(13,044)	-	-	13,044	-
Other equity instruments coupons paid	-	(105)	-	28	(77)
Vesting of employee share schemes	-	-	-	(10)	(10)
Dividends paid	-	-	-	(350)	(350)
Capital contribution from Barclays Bank PLC	-	-	-	941	941
Other movements	-	-	-	(1)	(1)
Balance as at 31 December 2018[a]	**5**	**2,070**	**178**	**14,771**	**17,024**
Balance as at 1 January 2017	-	-	-	-	-
Profit after tax	-	-	-	14	14
Total comprehensive income for the year	-	-	-	14	14
Issue of new ordinary shares	5	-	-	-	5
Capital contribution from Barclays Bank PLC	-	-	-	6	6
Issue of shares in consideration of subsidiary	-	-	134	-	134
Release of merger reserve	-	-	(13)	13	-
Balance as at 31 December 2017	5	-	121	33	159

Note
a Barclays Bank UK PLC acquired the UK banking business from Barclays Bank PLC on 1 April 2018.

Cash flow statement

For the year ended 31 December	Notes	2018 £m	2017 £m
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		**1,554**	14
Adjustment for non-cash items:			
Allowance for impairment		**622**	12
Depreciation, amortisation and impairment of property, plant, equipment and intangibles		**50**	-
Other provisions		**105**	-
Net loss on disposal of investments and property, plant and equipment		**4**	-
Other non-cash movements		**(32)**	-
Changes in operating assets and liabilities			
Net (increase) in cash collateral and settlement balances		**(124)**	-
Net (increase) in loans and advances at amortised cost		**(4,341)**	-
Net (increase) in reverse repurchase agreements and other similar lending		**(421)**	-
Net increase in deposits and debt securities in issue		**6,478**	-
Net (decrease) in repurchase agreements and other similar borrowing		**(171)**	-
Net (increase) in derivative financial instruments		**(5,836)**	-
Net (increase) in trading assets		**(151)**	-
Net (decrease) in trading liabilities		**(496)**	-
Net decrease in financial assets and liabilities at fair value		**1,718**	-
Net decrease in other assets		**1,878**	-
Net (decrease) in other liabilities		**(1,288)**	1
Corporate income tax paid		**(132)**	-
Dividend received		**-**	(27)
Net cash from operating activities		**(583)**	-
Net cash acquired from the acquisition of the UK banking business		**45,936**	-
Purchase of financial assets at fair value through other comprehensive income		**(8,483)**	-
Proceeds from sale or redemption of financial assets at fair value through other comprehensive income		**7,584**	-
Purchase of property, plant and equipment and intangibles		**(40)**	-
Proceeds from sale of property, plant and equipment and intangibles		**2**	-
Dividend received		**-**	27
Net cash from investing activities		**44,999**	27
Dividends paid and other coupon payments on equity instruments		**(455)**	-
Vesting of employee share schemes		**(10)**	-
Capital contribution from Barclays Bank PLC		**-**	6
Net cash from financing activities		**(465)**	6
Net increase in cash and cash equivalents		**43,951**	33
Cash and cash equivalents at beginning of year		**33**	-
Cash and cash equivalents at end of year		**43,984**	33
Cash and cash equivalents comprise:			
Cash and balances at central banks		**40,664**	-
Loans and advances to banks with original maturity less than three months		**146**	33
Cash collateral and settlement balances with banks with original maturity less than three months		**3,174**	-
		43,984	33

Interest received by Barclays Bank UK PLC was £5,170m (2017: £nil) and interest paid by Barclays Bank UK PLC was £741m (2017: £nil).

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.

Notes to the financial statements
For the year ended 31 December 2018

This section describes Barclays Bank UK Group's significant 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 particular note, the accounting policy and/or critical accounting estimate is contained within the relevant note.

1 Significant accounting policies

1. Reporting entity

Barclays Bank UK PLC is a public limited company, registered in England under company number 9740322.

These financial statements are prepared for Barclays Bank UK PLC and its subsidiaries (the Barclays Bank UK Group) under Section 399 of the Companies Act 2006. The Barclays Bank UK Group is a major UK financial services provider engaged in retail banking, credit cards, wholesale banking, wealth management and investment management services. In addition, individual financial statements have been presented for the holding company.

2. Compliance with International Financial Reporting Standards

The consolidated financial statements of the Barclays Bank UK Group, and the individual financial statements of Barclays Bank UK 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 with the exception of the adoption of IFRS 9 Financial Instruments including the early adoption of Prepayment Features with Negative Compensation (Amendments to IFRS 9), IFRS 15 Revenue from Contracts with Customers and the amendments to IFRS 2 Share-based Payment from 1 January 2018.

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 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 UK PLC. The 31 December 2018 Barclays Bank UK PLC financial statements represent the first consolidated financial statements prepared by Barclays Bank UK Group.

The financial statements have been prepared on a going concern basis, in accordance with the Companies Act 2006 as applicable to companies using IFRS.

4. Accounting policies

The Barclays Bank UK Group prepares financial statements in accordance with IFRS. The Barclays Bank UK 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 Bank UK Group applies IFRS 10 *Consolidated financial statements*.

The consolidated financial statements combine the financial statements of Barclays Bank UK PLC and all its subsidiaries. Subsidiaries are entities over which Barclays Bank UK PLC has control. The Barclays Bank UK Group has control over another entity when the Barclays Bank UK 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 Barclays Bank UK 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. Consistent accounting policies are used throughout the Barclays Bank UK 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.

None of the Barclays Bank UK Group's subsidiaries are significant in the context of the Barclays Bank UK Group's business, results or financial position. A complete list of all subsidiaries is presented in Note 36.

In the individual financial statements of Barclays Bank UK PLC, investments in subsidiaries are stated at cost less impairment.

(ii) Foreign currency translation

The Barclays Bank UK Group applies IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Transactions in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction. Foreign currency monetary balances are translated into Sterling at the period end exchange rates. Exchange gains and losses on such balances are taken to the income statement. Non-monetary foreign currency balances are carried at historical transaction date exchange rates.

(iii) Financial assets and liabilities

The Barclays Bank UK Group applies IFRS 9 *Financial Instruments* to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets. The Barclays Bank UK Group applies the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting purposes.

Recognition

The Barclays Bank UK Group recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Classification and measurement

Financial assets are classified on the basis of two criteria:

i) the business model within which financial assets are managed; and

ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The Barclays Bank UK Group assesses the business model criteria at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election on initial recognition for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

The accounting policy for each type of financial asset or liability is included within the relevant note for the item. The Barclays Bank UK Group's policies for determining the fair values of the assets and liabilities are set out in Note 16.

Derecognition

The Barclays Bank UK 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 de-recognised 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 or a substantive qualitative amendment – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Transactions in which the Barclays Bank UK 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 Barclays Bank UK 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.

Accounting for 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 Barclays Bank UK 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 Barclays Bank UK Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Barclays Bank UK 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 Barclays Bank UK Group does not acquire the risks and rewards of ownership.

1 Significant accounting policies continued

Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost, unless it is designated at fair value through profit and loss.

The Barclays Bank UK 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 Barclays Bank UK 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, unless it is designated at fair value through profit and loss.

(iv) Issued debt and equity instruments

The Barclays Bank UK 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 Barclays Bank UK Group having an 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.

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, with the exception of the adoption of IFRS 9 *Financial Instruments* including the early adoption of *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), IFRS 15 *Revenue from Contracts with Customers* and the amendments to IFRS 2 *Share-based Payment* from 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces key changes in the following areas:

- Classification and measurement – requiring asset classification and measurement based upon both business model and product characteristics
- Impairment – introducing an expected credit loss model using forward looking information which replaces an incurred loss model. The expected credit loss model introduces a three-stage approach to impairment as follows:

Stage 1 – the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
Stage 2 – lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
Stage 3 – lifetime expected credit losses for financial instruments which are credit impaired.

Refer to Note 8 for further details regarding the impairment requirements of IFRS 9.

As required by IFRS 9 the Barclays Bank UK Group applied IFRS 9 retrospectively by adjusting the opening balance sheet at the date of initial application, and comparative periods have not been restated. There were no significant impacts from the adoption of IFRS 9.

The following voluntary changes in presentation have been made as a result of the review of accounting presentation following the adoption of IFRS 9, and is expected to provide more relevant information to the users of the financial statements. These presentational changes have no effect on the measurement of these items and therefore had no impact on retained earnings or profit for any period. The effect of these presentational changes on transition are included in the consolidated balance sheet on page 108 and are noted below.

- 'Loans and advances to banks' and 'loans and advances to customers' have been disaggregated and are now reported in 'loans and advances at amortised cost' and 'cash collateral and settlement balances'; and
- The available for sale assets which were previously reported in 'financial investments/available for sale investments' are now reported in 'financial assets at fair value through other comprehensive income'.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model includes: 1) identifying the contract with the customer, 2) identifying each of the performance obligations included in the contract, 3) determining the amount of consideration in the contract, 4) allocating the consideration to each of the identified performance obligations and 5) recognising revenue as each performance obligation is satisfied. There were no significant impacts from the adoption of IFRS 15 in relation to the timing of when the Barclays Bank UK Group recognises revenues or when revenue should be recognised gross as a principal or net as an agent.

IFRS 2 Share-based Payment-– Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are effective for annual periods beginning on or after 1 January 2018. Adoption of the amendments did not have a significant impact on the Barclays Bank UK Group.

Future accounting developments

There have been and are expected to be a number of significant changes to the Barclays Bank UK Group's financial reporting after 2018 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:

IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 *Leases*, which was subsequently endorsed by the EU in November 2017, and will replace IAS 17 *Leases* for period beginning on or after 1 January 2019. IFRS 16 will apply to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38 *Intangible Assets*, service concession arrangements, leases of biological assets within the scope of IAS 41 *Agriculture*, and leases of minerals, oil, natural gas and similar non-regenerative resources. A lessee may elect not to apply IFRS 16 to remaining assets within the scope of IAS 38 *Intangible Assets*.

IFRS 16 will not result in a significant change to lessor accounting; however for lessee accounting there will no longer be a distinction between operating and finance leases. Lessees will be required to recognise both:

- a lease liability, measured at the present value of remaining cash flows on the lease; and
- a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

There is a recognition exception for leases with a term not exceeding 12 months which allows the lessee to apply similar accounting as an operating lease under IAS 17.

Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease.

The Barclays Bank UK Group IFRS 16 implementation and governance programme has been led by Finance with representation from all impacted departments. The project has identified the contracts impacted by IFRS 16, which are predominantly existing property leases. Other lease types are not material. The project has also established appropriate accounting policies, determined the appropriate transition options to apply, and updated Finance systems and processes to reflect the new accounting and disclosure requirements.

As permitted by the standard, the Barclays Bank UK Group intends to apply IFRS 16 on a retrospective basis but to take advantage of the option not to restate comparative periods by applying the modified retrospective approach. The Barclays Bank UK Group intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments;
- To rely on the previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review. The Barclays Bank UK Group will adjust the carrying amount of the ROU asset at the date of initial application by the previous carrying amount of its onerous lease provision;
- Apply the recognition exception for leases with a term not exceeding 12 months; and
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The expected impact of adopting IFRS 16 is an increase in assets of £0.5bn, an increase in liabilities of £0.5bn with no material impact to retained earnings. This impact assessment has been estimated under an interim control environment. The implementation of the comprehensive end state control environment will continue as the Barclays Bank UK Group introduces business as usual controls through 2019.

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005.

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The standard is currently effective from 1 January 2021, and the standard has not yet been endorsed by the EU. The Barclays Bank UK Group is currently assessing the expected impact of adopting this standard.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatment

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The effective date is 1 January 2019. The Barclays Bank UK Group has considered the guidance included within the interpretation and concluded that the prescribed approach under IFRIC 23 is not expected to have a material impact on the Barclays Bank UK Group's financial position.

IAS 12 Income Taxes-Amendments to IAS 12

In December 2017, as part of the Annual Improvements to IFRS Standards 2015-2017 Cycle, the IASB amended IAS 12 in order to clarify the accounting treatment of the income tax consequences of dividends. Effective from 1 January 2019 the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, will be included in, and will reduce, the income statement tax charge. Refer to Note 10 for the expected impact of adopting the amendments to IAS 12.

IAS 19 Employee Benefits – Amendments to IAS 19

In February 2018 the IASB issued amendments to the guidance in IAS 19 *Employee Benefits*, in connection with accounting for plan amendments, curtailments and settlements. The amendments must be applied to plan amendments, curtailments or settlements occurring on or after the

1 Significant accounting policies continued

beginning of the first annual reporting period that begins on or after 1 January 2019. The amendments have not yet been endorsed by the EU. Adoption of the amendments is not expected to have significant impact on the Barclays Bank UK Group.

6. 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:

- Net interest income on page 122
- Credit impairment charges on page 125
- Tax on page 128
- Fair value of financial instruments on page 138
- Provisions including conduct and legal, competition and regulatory matters on page 153.

7. Other disclosures

To improve transparency and ease of reference, by concentrating related information in one place, certain disclosures required under IFRS have been included within the Risk review section as follows:

- Credit risk on page 33 and the tables on pages 48 to 70
- Market risk on page 36 and the tables on pages 71 to 73
- Treasury and capital risk – capital on page 39 and the tables on page 80
- Treasury and capital risk – liquidity on page 38 and the tables on pages 75 to 79.

These disclosures are covered by the Audit opinion (included on pages 98 to 105) where referenced as audited.

8. Presentation of prior year comparative information

For notes where all prior year comparative figures round to nil when presented in rounded millions, no prior year disclosure has been provided.

2 Acquisition of business

Accounting for acquisition of business under common control

Transactions under common control are transactions under which all the combining entities or businesses are ultimately controlled by the same party both before and after the transaction and that control is not transitory.

Barclays Bank UK Group has adopted predecessor book value accounting for common control transactions involving businesses. Acquisition accounting, which involves restatement at fair value of assets and liabilities of the business transferred, is therefore not applied.

Barclays Bank UK Group's application of predecessor book value accounting requires the acquiring entity's financial statements to be prepared using predecessor carrying values from the highest level of consolidation as at the date of the transaction. No adjustments are made to reflect fair values and no new goodwill is recognised. The comparative periods prior to the transaction date are not restated, such that the transferred businesses results and carrying amounts of assets and liabilities are reported prospectively from the date of the acquisition. The acquiring entity will also generally recognise the other comprehensive income reserves of the transferring entity, except in situations where the acquiring entity does not recognise the related underlying assets or liabilities.

Other transactions under common control not involving the acquisition of a business would be accounted for in accordance with other IFRS standards as applicable.

Following the court approval of the ring-fencing transfer scheme on 9 March 2018, the UK banking business of Barclays Bank PLC largely comprising Personal Banking, Barclaycard Consumer UK and Business Banking customers, and related assets and liabilities was acquired by Barclays Bank UK PLC on 1 April 2018, to meet the regulatory ring-fencing requirement under the Financial Services (Banking Reform) Act 2013 and related legislation.

The assets and liabilities, including goodwill were recognised by Barclays Bank UK PLC at their predecessor book values in the consolidated financial statements of Barclays PLC on the date of transfer. The total net assets transferred to Barclays Bank UK PLC were £16.2bn. Net assets of £13.0bn were transferred in exchange for three ordinary shares issued by Barclays Bank UK PLC and the remaining assets were transferred for no consideration.

The acquisition from Barclays Bank PLC has resulted in a material change to the financial position and results of Barclays Bank UK PLC in comparison to the prior period. The individual assets acquired and liabilities assumed as part of the acquisition are detailed below:

Barclays Bank UK Group	As at 01.01.18	Acquisition of UK banking business[a]	Movement for the period	As at 31.12.18
Assets	£m	£m	£m	£m
Cash and balances at central banks	-	37,380	3,289	**40,669**
Cash collateral and settlement balances	-	8,649	(5,300)	**3,349**
Loans and advances at amortised cost	53	184,825	3,687	**188,565**
Reverse repurchase agreements and other similar secured lending	-	1,338	421	**1,759**
Trading portfolio assets	-	-	151	**151**
Financial assets at fair value through the income statement	-	5,616	(1,736)	**3,880**
Derivative financial instruments	-	2,777	(2,536)	**241**
Financial assets at fair value through other comprehensive income	5	5,539	1,166	**6,710**
Goodwill and intangible assets	-	3,537	(3)	**3,534**
Property, plant and equipment	-	510	(12)	**498**
Deferred tax assets	-	747	45	**792**
Other assets	2	3,007	(1,852)	**1,157**
Total assets	60	253,925	(2,680)	**251,305**
Liabilities				
Deposits at amortised cost	-	194,150	3,335	**197,485**
Cash collateral and settlement balances	-	432	(193)	**239**
Repurchase agreements and other similar secured borrowing	-	12,149	(171)	**11,978**
Debt securities in issue	-	12,303	(1,131)	**11,172**
Subordinated liabilities	-	3,001	4,547	**7,548**
Trading portfolio liabilities	-	1,765	(496)	**1,269**
Derivative financial instruments	-	8,809	(8,390)	**419**
Current tax liabilities	5	671	308	**984**
Other liabilities	8	2,145	(265)	**1,888**
Provisions	1	2,304	(925)	**1,380**
Total liabilities	14	237,729	(3,381)	**234,362**

Note

a The capital contribution recorded on 1 April 2018, when the majority of the UK banking business was transferred from Barclays Bank PLC, reflected subsequent true-up adjustments that were recognised between the parties as required by the terms of the 1 April transfers. Certain such adjustments, amounting to £66m, were not recorded at the time of the half year results as they had not been verified by that date, and therefore were not reflected in the capital contribution. The window for adjustments has now closed.

The narrative below provides further granularity of the items transferred as part of the acquisition of the UK banking business from Barclays Bank PLC. The items transferred included (but were not limited to):

- Loans and advances at amortised cost of £184,825m relating to the UK banking business were transferred, including home loans of £133,641m, credit cards and unsecured loans of £22,621m, and corporate loans of £27,396m
- Derivative assets and liabilities consisted of hedges for assets held at fair value as well those designated in hedge accounting relationships. The fair value of the derivative assets was £2,777m and the fair value of the derivative liabilities was £8,809m. Subsequent to acquisition, the majority of the derivative hedge positions have been cleared through a central clearing house, also reducing the cash collateral and settlement balances
- Financial assets at fair value through other comprehensive income consisted of debt securities of £5,539m
- Property, plant and equipment relating to the UK banking business with a net book value of £510m (gross cost of £971m and accumulated depreciation of £461m)
- Goodwill relating to the UK banking business with a net book value of £3,526m and licences and other intangible assets with a net book value of £11m (gross cost of £90m and accumulated amortisation of £79m)
- Other assets of £3,007m consisted of sundry receivables of £2,167m predominately relating to balances held with Barclays Bank PLC, items in the course of collection of £588m, accrued income of £146m and prepayments of £106m
- Deposits at amortised cost of £194,150m consisted of current, saving and time deposits of UK banking business customers and deposits with banks
- Debt securities in issue consisted of covered bonds of £8,302m and other debt securities of £4,001m
- Other liabilities consisted of sundry creditors of £1,867m and accruals and deferred income of £278m

The share capital, share premium and reserves of Barclays Bank UK PLC have been impacted as follows as a result of the acquisition of the UK banking business: share capital and share premium have increased £13,044m, other equity instruments have increased £2,070m, other reserves and retained earnings have increased £1,082m.

Materially all of the current year revenue and profit for Barclays Bank UK Group was generated by the acquired UK banking business.

Had the acquisition of the UK banking business occurred on 1 January, an additional three months of income and expenses would be recognised in the current period. The operations acquired made a profit before tax for the three months to 31 March 2018 of £91m, which included a £400m charge for PPI.

Barclays Bank UK PLC	As at 01.01.18	Acquisition of UK banking business	Movement for the period	As at 31.12.18
Assets	£m	£m	£m	£m
Cash and balances at central banks	-	37,380	3,284	**40,664**
Cash collateral and settlement balances	-	8,670	(5,306)	**3,364**
Loans and advances at amortised cost	33	184,885	3,688	**188,606**
Reverse repurchase agreements and other similar secured lending	-	1,338	421	**1,759**
Trading portfolio assets		-	151	**151**
Financial assets at fair value through the income statement	-	5,598	(1,718)	**3,880**
Derivative financial instruments	-	2,777	(2,536)	**241**
Financial investments	5	-	(5)	**-**
Financial assets at fair value through other comprehensive income	-	5,539	1,171	**6,710**
Investment in Subsidiaries	122	341	-	**463**
Goodwill and intangible assets	-	3,389	(3)	**3,386**
Property, plant and equipment	-	510	(12)	**498**
Current tax assets	-	-	-	**-**
Deferred tax assets	-	747	43	**790**
Other assets	-	2,820	(1,881)	**939**
Total assets	160	253,994	(2,703)	**251,451**
Liabilities				
Deposits at amortised cost	-	195,240	3,791	**199,031**
Cash collateral and settlement balances	-	431	(192)	**239**
Repurchase agreements and other similar secured borrowing	-	12,149	(171)	**11,978**
Debt securities in issue	-	11,552	(1,640)	**9,912**
Subordinated liabilities	-	3,001	4,547	**7,548**
Trading portfolio liabilities	-	1,765	(496)	**1,269**
Derivative financial instruments	-	8,809	(8,373)	**436**
Current tax liabilities	-	676	314	**990**
Other liabilities	1	1,986	(311)	**1,676**
Provisions	-	2,230	(882)	**1,348**
Total liabilities	1	237,839	(3,413)	**234,427**

Notes to the financial statements
Performance/return

The notes included in this section focus on the results and performance of the Barclays Bank UK Group. Information on the income generated, expenditure incurred, segmental performance, tax and dividends are included here.

3 Segmental reporting

Presentation of segmental reporting

The Barclays Bank UK 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.

Following the acquisition of the UK banking business on 1 April 2018 from Barclays Bank PLC, for segmental reporting purposes the Barclays Bank UK Group divisions have been defined as:

- **Personal Banking** which comprises Personal and Premier banking, Mortgages, Savings, Investments and Wealth management.
- **Barclaycard Consumer UK** which comprises the Barclaycard UK consumer credit cards business.
- **Business Banking** which offers products, services and specialist advice to clients ranging from start-ups to medium-sized businesses and is where the Education, Social Housing and Local Authority (ESHLA) loan portfolio is held.

The below table also includes Head Office which comprises head office and central support functions.

Analysis of results by business

	Personal Banking	Barclaycard Consumer UK	Business Banking	Head Office	Barclays Bank UK Group
	£m	£m	£m	£m	£m
For the year ended 31 December 2018					
Total income	3,152	1,578	991	(115)	5,606
Credit impairment charges and other provisions	(100)	(477)	(48)	1	(624)
Net operating income/(expenses)	3,052	1,101	943	(114)	4,982
Operating expenses	(2,271)	(486)	(571)	(28)	(3,356)
Litigation and conduct	(12)	(50)	(9)	(7)	(78)
Total operating expenses	(2,283)	(536)	(580)	(35)	(3,434)
Profit/(loss) before tax	769	565	363	(149)	1,548
Total assets	£179.4bn	£16.5bn	£55.4bn	-	£251.3bn
Number of employees (full time equivalent)	19,000	300	3,300	200	22,800

The above segments have been in place since 1 April 2018, following the acquisition of the UK banking business. Prior to the acquisition of the UK banking business, all income and expenses were associated with Personal Banking.

Income by geographic region

Income from Barclays Bank UK Group is earned from the UK region.

4 Net interest income

Accounting for interest income and expenses

Interest income on loans and advances at amortised cost, 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 Barclays Bank UK 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.

The Barclays Bank UK Group derives certain fees and incurs certain costs in the origination of mortgage products. Such fees and costs where directly attributable and incremental to the origination of the instrument, are deferred on the balance sheet and subsequently included within the calculation of the effective interest rate. They are amortised to interest income over the period of expected life.

Similarly, for mortgage products with distinct periods (initial and follow-on) and contractual margins over the original term wherein the initial contractual margin varies from the average calculated return, additional interest is deferred on the balance sheet and released to interest income over the remaining expected life. This adjustment results in a constant rate of return over contractual rate(s) recognised in the income statement.

Critical accounting estimates and judgements

There is significant judgement involved in application of the effective interest rate (EIR) method for loans measured at amortised cost, in particular developing repayment expectations for long dated instruments such as mortgages. Application of the EIR method adjusts the timing and amount of interest recognition, with qualifying revenue and expenses deferred and recognised through the life of the instrument as well as the deferred or accelerated recognition of interest where instruments have contractually specified decreases or increases in the calculation of interest. EIR calculations are performed at a portfolio level, aggregating financial instruments with similar characteristics and contractual terms. The values in the table below reflect net interest income post application of the EIR method.

	2018 £m
Cash and balances at central banks	77
Fair value through other comprehensive income	76
Loans and advances at amortised cost	5,073
Other	41
Interest income	**5,267**
Deposits at amortised cost	(440)
Debt securities in issue	(217)
Subordinated liabilities	(101)
Other	(72)
Interest expense	**(830)**
Net interest income	**4,437**

Interest income presented above represents interest revenue calculated using the effective interest method.

Interest income includes £44m accrued on impaired loans.

Included in net interest income is hedge ineffectiveness as detailed in Note 14, this amounts to £82m.

5 Net fee and commission income

Accounting for net fee and commission income under IFRS 15 effective from 1 January 2018

The Barclays Bank UK Group applies IFRS 15 Revenue from Contracts with Customers. The standard establishes a five-step model governing revenue recognition. The five-step model requires Barclays Bank UK Group to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

Barclays Bank UK Group recognises fee and commission income charged for services provided by the Barclays Bank UK Group as the services are provided, for example on completion of the underlying transaction.

Accounting for net fee and commission income under IAS 18 for 2017

The Barclays Bank UK Group applies IAS 18 Revenue. Fees and commissions charged for services provided or received by the Barclays Bank UK Group are recognised as the services are provided, for example on completion of the underlying transaction.

Fee and commission income is disaggregated below by fee types that reflect the nature of the services offered across the Barclays Bank UK Group and operating segments, in accordance with IFRS 15. It includes a total for fees in scope of IFRS 15. Refer to Note 3 for more detailed information about operating segments.

	2018				
	Personal Banking £m	Barclaycard Consumer UK £m	Business Banking £m	Head Office £m	Total £m
Fee type					
Transactional	516	176	129	-	821
Advisory	188	-	-	-	188
Other	189	3	114	-	306
Total revenue from contracts with customers	893	179	243	-	1,315
Other non-contract fee income	-	-	-	-	-
Fee and commission income	893	179	243	-	1,315
Fee and commission expense	(240)	(24)	(9)	-	(273)
Net fee and commission income	653	155	234	-	1,042

	2017[a] £m
Fee and commission income	
Banking, investment management and credit related fees and commissions	27
Fee and commission income	27
Fee and commission expense	-
Net fee and commission income	27

Note

a Barclays Bank UK Group elected the cumulative effect transition method on adoption of IFRS 15 from 1 January 2018, and recognised in retained earnings without restating comparative periods. The comparative figures are reported under IAS 18.

Notes to the financial statements
Performance/return

Fee types

Transactional

Transactional fees are service charges on deposit accounts, cash management services and transactional processing fees including interchange and merchant fee income generated from credit and bank card usage. Transaction and processing fees are recognised at the point in time the transaction occurs or service is performed. They include banking services such as Automated Teller Machine (ATM) fees, wire transfer fees, balance transfer fees, overdraft or late fees and foreign exchange fees, among others. Interchange and merchant fees are recognised upon settlement of the card transaction payment.

Barclays Bank UK Group incurs certain card related costs including those related to cardholder reward programmes. To the extent cardholder reward programmes costs are attributed to customers that settle their outstanding balance each period (transactors) they are expensed when incurred and presented in fee and commission expense while costs related to customer who continuously carry an outstanding balance (revolvers) are included in the effective interest rate of the receivable (refer to Note 4).

Advisory

Advisory fees are generated from wealth management services. Wealth management advisory fees primarily consists of asset-based fees for advisory accounts of wealth management clients and are based on the market value of client assets. They are earned over the period the services are provided and are generally recognised quarterly when the market value of client assets is determined.

Contract assets and contract liabilities

The Barclays Bank UK Group had no material contract assets or contract liabilities as at 31 December 2018.

Impairment on fee receivables and contract assets

During 2018, there have been no material impairments recognised in relation to fees receivable and contract assets. Fees in relation to transactional business can be added to outstanding customer balances. These amounts may be subsequently impaired as part of the overall loans and advances balance.

Remaining performance obligations

The Barclays Bank UK Group applies the practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less or because the Barclays Bank UK Group has a right to consideration that corresponds directly with the value of the service provided to the client or customer.

Costs incurred in obtaining or fulfilling a contract

The Barclays Bank UK Group expects that incremental costs of obtaining a contract such as success fee and commission fees paid are recoverable and therefore capitalised. Such contract costs are not material as at 31 December 2018.

Capitalised contract costs are amortised based on the transfer of services to which the asset relates which typically ranges over the expected life of the relationship. In 2018, the amount of amortisation was immaterial and there was no impairment loss recognised in connection with the capitalised contract costs.

6 Net trading income

Accounting for net trading income

In accordance with IFRS 9, trading positions are held at fair value, and the resulting gains and losses are included in the income statement, together with interest arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions and from changes in fair value caused by movements in interest and exchange rates and other market variables.

Gains or losses on non-trading financial instruments designated or mandatorily at fair value with changes in fair value recognised in the income statement are included in net trading income where, the business model is to manage assets and liabilities on a fair value basis which includes use of derivatives or where an instrument is designated at fair value to eliminate an accounting mismatch and the related instrument's gain and losses are reported in trading income.

	2018
	£m
Net gains from assets and liabilities held for trading[a]	22
Net gains from financial instruments designated at fair value	8
Net trading income	**30**

Note

a Trading income within Barclays Bank UK Group includes foreign exchange revaluations and mark-to-market gains on derivatives in Treasury.

7 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 13 and Note 15.

	2018
	£m
Net gains from disposal of debt instruments at fair value through other comprehensive income	27
Other investment income	59
Net investment income	**86**

8 Credit impairment charges and other provisions

Accounting for the impairment of financial assets

Impairment

The Barclays Bank UK Group is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. Intercompany exposures in the individual financial statements, including loan commitments and financial guarantee contracts, are also in scope of IFRS 9 for ECL purposes.

At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month (Stage 1) ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs.

The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD).

The 12 month ECL is calculated by multiplying the 12 month PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

Determining a significant increase in credit risk since initial recognition:

The Barclays Bank UK Group assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. The credit risk of an exposure is considered to have significantly increased when:

i) Quantitative test

The annualised lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination.

PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of the point at which a PD increase is deemed 'significant', is based upon analysis of the portfolios' risk profile against a common set of principles and performance metrics (consistent across both retail and wholesale businesses), incorporating expert credit judgement where appropriate.

Wholesale assets apply a 100% increase in PD and 0.2% PD floor to determine a significant increase in credit risk.

Retail assets apply bespoke relative increase and absolute PD thresholds based on product type and origination PD. Thresholds are subject to maximums defined by Barclays Group policy and typically apply minimum relative thresholds of 50-100% and a maximum relative threshold of 400%.

For existing/historical exposures where origination point scores or data are no longer available or do not represent a comparable estimate of lifetime PD, a proxy origination score is defined, based upon:

- Back-population of the approved lifetime PD score either to origination date or, where this is not feasible, as far back as possible, (subject to a data start point no later than 1 January 2015); or
- Use of available historical account performance data and other customer information, to derive a comparable 'proxy' estimation of origination PD.

ii) Qualitative test

Relevant for accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

High risk customers may not be in arrears but either through an event or an observed behaviour exhibit credit distress. The definition and assessment of high risk includes as wide a range of information as reasonably available, such as industry and Group-wide customer level data, including but not limited to bureau scores and high consumer indebtedness index, wherever possible or relevant.

Whilst the high risk populations applied for IFRS 9 impairment purposes are aligned with risk management processes, they are also regularly reviewed and validated to ensure that they capture any incremental segments where there is evidence of credit deterioration.

iii) Backstop criteria
Relevant for accounts that are more than 30 calendar days past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into Stage 2.

Exposures will move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. This means that, at a minimum: all payments must be up-to-date, the PD deterioration test is no longer met, the account is no longer classified as high risk, and the customer has evidenced an ability to maintain future payments.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Forward-looking information
The measurement of ECL involves complexity and judgement, including estimation of PD, LGD, a range of unbiased future economic scenarios, estimation of expected lives (where contractual life is not appropriate), and estimation of EAD and assessing significant increases in credit risk. Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions.

Barclays Group uses a five-scenario model to calculate ECL. An external consensus forecast is assembled from key sources, including HM Treasury, Bloomberg and the Urban Land Institute, which forms the baseline scenario. In addition, two adverse scenarios (Downside 1 and Downside 2) and two favourable scenarios (Upside 1 and Upside 2) are derived, with associated probability weightings. The adverse scenarios are calibrated to a similar severity to internal stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity. Downside 2 is benchmarked to the Bank of England's annual cyclical scenarios and to the most severe scenario from Moody's inventory, but is not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include six economic core variables, (GDP, unemployment and House Price Index (HPI) in both the UK and US markets), and expanded variables using statistical models based on historical correlations. All five scenarios converge to a steady state after eight years.

The methodology for estimating probability weights for each of the scenarios involves a comparison of the distribution of key historical UK and US macroeconomic variables against the forecast paths of the five scenarios. The methodology works such that the baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the baseline; the further from the baseline, the smaller the weight. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The impacts across the portfolios are different because of the sensitivities of each of the portfolios to specific macroeconomic variables, for example, mortgages are highly sensitive to house prices and base rates, credit cards and unsecured consumer loans are highly sensitive to unemployment.

Definition of default, credit impaired assets, write-offs, and interest income recognition
The definition of default for the purpose of determining ECLs, and for internal credit risk management purposes, has been aligned to the Regulatory Capital CRR Article 178 definition of default, to maintain a consistent approach with IFRS 9 and associated regulatory guidance. The Regulatory Capital CRR Article 178 definition of default considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due or 180 days past due in the case of UK mortgages. When exposures are identified as credit impaired or purchased or originated as such interest income is calculated on the carrying value net of the impairment allowance.

Credit impaired is when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired.

Uncollectible loans are written off against the related allowance for loan impairment on completion of the Barclays Bank UK Group's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement. 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.

Loan modifications and renegotiations that are not credit-impaired
When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to the credit risk of the borrower, an assessment must be performed to determine whether the terms of the new agreement are substantially different from the terms of the existing agreement. This assessment considers both the change in cash flows arising from the modified terms as well as the change in overall instrument risk profile.

Where terms are substantially different, the existing loan will be derecognised and a new loan will be recognised at fair value.

Where terms are not substantially different, the loan carrying value will be adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

Expected life
Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolver financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the entity's contractual ability to demand repayment and cancel the undrawn

commitment does not limit the entity's exposure to credit losses to the contractual notice period. For revolving facilities, expected life is analytically derived to reflect behavioural life of the asset, i.e. the full period over which the business expects to be exposed to credit risk. Behavioural life is typically based upon historical analysis of the average time to default, closure or withdrawal of facility. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life of the exposures, based upon experienced judgement and/or peer analysis. Potential future modifications of contracts are not taken into account when determining the expected life or EAD until they occur.

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments the EIR is the rate that is expected to apply when the loan is drawn down and a financial asset is recognised. Issued financial guarantee contracts are discounted at the risk free rate. Lease receivables are discounted at the rate implicit in the lease. For variable/floating rate financial assets, the spot rate at the reporting date is used and projections of changes in the variable rate over the expected life are not made to estimate future interest cash flows or for discounting.

Modelling techniques

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original EIR. The regulatory Basel Committee of Banking Supervisors (BCBS) ECL calculations are leveraged for IFRS 9 modelling but adjusted for key differences which include:

- BCBS requires 12 month through the economic cycle losses whereas IFRS 9 requires 12 months or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives;
- IFRS 9 models do not include certain conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original EIR rather than using the cost of capital to the date of default;
- Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events; and
- ECL is measured at the individual financial instrument level, however a collective approach where financial instruments with similar risk characteristics are grouped together, with apportionment to individual financial instruments, is used where effects can only be seen at a collective level, for example for forward-looking information.

For the IFRS 9 impairment assessment, Barclays Bank UK Group' risk models are used to determine the PD, LGD and EAD. For Stage 2 and 3, Barclays Bank UK Group applies lifetime PDs but uses 12 month PDs for Stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Forbearance

A financial asset is subject to forbearance when it is modified due to the credit distress of the borrower. A modification made to the terms of an asset due to forbearance will typically be assessed as a non-substantial modification that does not result in derecognition of the original loan, except in circumstances where debt is exchanged for equity.

Both performing and non-performing forbearance assets are classified as Stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as Stage 2. The minimum probationary period for non-performing forbearance is 12 months and for performing forbearance, 24 months. Hence, a minimum of 36 months is required for non-performing forbearance to move out of a forborne state.

No financial instrument in forbearance can transfer back to Stage 1 until all of the Stage 2 thresholds are no longer met and can only move out of Stage 3 when no longer credit impaired.

Critical accounting estimates and judgements

IFRS 9 impairment involves several important areas of judgement, including estimating forward looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk, the calculation of impairment involves the use of judgement, based on the Barclays Bank UK Group's experience of managing credit risk. The determination of expected life is significant for retail credit card portfolios which is obtained via behavioural life analysis. As a result, the expected life of credit card portfolios is modelled over 10 years, to materially capture the risk of these revolving facilities.

Within the retail and small businesses portfolios, which comprise large numbers of small homogenous assets with similar risk characteristics, the impairment allowance is calculated using forward looking modelled parameters which are typically run at account level. There are many 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.

For individually significant assets in Stage 3, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be subjective and can include the business prospects for the customer, the realisable value of collateral, the Barclays Bank UK Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. The economic scenarios considered are the same as those used in the Barclays Group's ECL models. 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. 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.

	2018		
	Impairment Charges	Recoveries[a]	Total
	£m	£m	£m
Loans and advances	751	(93)	658
Provision for undrawn contractually committed facilities and guarantees provided	(33)	-	(33)
Loans impairment	718	(93)	625
Other financial assets measured at cost	(1)	-	(1)
Credit impairment charges and other provisions	717	(93)	624

Note
a Cash recoveries of previously written off amounts.

Write-off subject to enforcement activity
The contractual amount outstanding on financial assets that were written off during the period ended 31 December 2018 and that are still subject to enforcement activity is £299m. This is lower than the write-offs presented in the movement in gross exposures and impairment allowance table due to assets sold during the year post write-offs and post write-off recoveries.

Modification of financial assets
Financial assets with a loss allowance measured at an amount equal to life time ECL of £68m were subject to non-substantial modifications during the period, with a resulting loss of £7m.There is no material movement in financial assets for which the loss allowance has changed to a 12 month ECL.

9 Operating expenses

	2018	2017
	£m	£m
Infrastructure costs		-
Property and equipment	170	-
Depreciation of property, plant and equipment	45	-
Operating lease rentals	87	-
Amortisation of intangible assets	3	-
Impairment of property, equipment and intangible assets	2	-
Total infrastructure costs	307	-
Administration and general costs		-
Consultancy, legal and professional fees	48	-
Subscriptions, publications, stationery and communications	49	-
Marketing, advertising and sponsorship	99	-
Travel and accommodation	12	-
UK bank levy	46	-
Other administration and general expenses	1,779	8
Total administration and general costs	2,033	8
Staff costs	1,016	-
Provisions for litigation and conduct	78	-
Operating expenses	3,434	8

10 Tax

Accounting for income taxes
The Barclays Bank UK Group 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 periods 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 offsetting against taxable profits arising in the current or prior periods. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except in certain circumstances where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. 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.

The Barclays Bank UK Group considers an uncertain tax position to exist when it considers that ultimately, in the future, the amount of profit subject to tax may be greater than the amount initially reflected in the Barclays Bank UK Group's tax returns. The Barclays Bank UK Group accounts for provisions in respect of uncertain tax positions in two different ways.

A current tax provision is recognised when it is considered probable that the outcome of a review by a tax authority of an uncertain tax position will alter the amount of cash tax due to, or from, a tax authority in the future. From recognition, the current tax provision is then measured at the amount the Barclays Bank UK Group ultimately expects to pay the tax authority to resolve the position, taking into account any interest and penalties potentially payable to the tax authority.

Deferred tax provisions are adjustments made to the carrying value of deferred tax assets in respect of uncertain tax positions. A deferred tax provision is recognised when it is considered probable that the outcome of a review by a tax authority of an uncertain tax position will result in a reduction in the carrying value of the deferred tax asset. From recognition of a provision, measurement of the underlying deferred tax asset is adjusted to take into account the expected impact of resolving the uncertain tax position on the loss or temporary difference giving rise to the deferred tax asset.

The approach taken to measurement takes account of whether the uncertain tax position is a discrete position that will be reviewed by the tax authority in isolation from any other position, or one of a number of issues which are expected to be reviewed together concurrently and resolved simultaneously with a tax authority. Barclays Bank UK Group's measurement of provisions is based upon its best estimate of the additional profit that will become subject to tax. For a discrete position, consideration is given only to the merits of that position. Where a number of issues are expected to be reviewed and resolved together, Barclays Bank UK Group will take into account not only the merits of its position in respect of each particular issue but also the overall level of provision relative to the aggregate of the uncertain tax positions across all the issues that are expected to be resolved at the same time. In addition, in assessing provision levels, it is assumed that tax authorities will review uncertain tax positions and that all facts will be fully and transparently disclosed.

Critical accounting estimates and judgements

There are two key areas of judgement that impact the reported tax position. Firstly, the level of provisioning for uncertain tax positions; and secondly, the recognition and measurement of deferred tax assets.

The Barclays Bank UK Group does not consider there to be a significant risk of a material adjustment to the carrying amount of current and deferred tax balances, including provisions for uncertain tax positions in the next financial year. The provisions for uncertain tax positions cover a diverse range of issues and reflect advice from external counsel where relevant. It should be noted that only a proportion of the total uncertain tax positions will be under audit at any point in time, and could therefore be subject to challenge by a tax authority over the next year.

Deferred tax assets have been recognised based on business profit forecasts. Details on the recognition of deferred tax assets is provided in this note.

	2018 £m	2017 £m
Current tax charge		
Current year	**426**	4
Deferred tax charge		
Current year	**7**	-
Tax charge	**433**	4

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 Barclays Bank UK Group's profit before tax.

	2018 £m	2018 %	2017 £m	2017 %
Profit before tax	**1,548**		19	
Tax charge based on the standard UK corporation tax rate of 19% (2017: 19.25%)	**294**	**19.0**	4	19.3
Recurring items:				
Non-deductible expenses	**14**	**0.9**	-	-
Impact of UK bank levy being non-deductible	**9**	**0.6**	-	-
Banking surcharge and other items	**109**	**7.0**	-	-
Non-recurring items:				
Non-deductible provisions for investigations and litigation	**7**	**0.5**	-	-
Total tax charge	**433**	**28.0**	4	19.3

Factors driving the effective tax rate

The effective tax rate of 28.0% is higher than the UK corporation tax rate of 19% primarily due to the banking surcharge on profits and other non-deductible items.

In the UK, legislation to reduce the corporation tax rate to 17% from 1 April 2020 has been enacted.

Effective from 1 January 2019, a change in accounting standards requires the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, to be included in the income statement tax charge. The Barclays Bank UK Group currently includes the tax credit associated with deductions for payments made under Additional Tier 1 instruments as a movement in reserves. This accounting change will result in that tax credit being included in the income statement tax charge, and this will have the effect of reducing the Barclays Bank UK Group's effective tax rate from 2019.

For illustrative purposes, if this future accounting approach had been applied in 2018, then the tax credit on payments under Additional Tier 1 instruments would have reduced the Barclays Bank UK Group total income statement tax charge by £28m.

Tax in other comprehensive income

Tax relating to each component of other comprehensive income can be found on page 107 in the consolidated statement of comprehensive income.

Current tax assets and liabilities

Movements on current assets and liabilities were as follows:

	Barclays Bank UK Group		Barclays Bank UK PLC	
	2018	2017	2018	2017
	£m	£m	£m	£m
Assets	-	-	-	-
Liabilities	(5)	-	-	-
As at 1 January	(5)	-	-	-
Income statement	(426)	(4)	(420)	-
Other comprehensive income	62	-	62	-
Corporate income tax paid	128	-	132	-
Transfer of UK banking business	(671)	-	(676)	-
Other movements	(72)	(1)	(88)	-
	(984)	(5)	(990)	-
Assets	-	-	-	-
Liabilities	(984)	(5)	(990)	-
As at 31 December	(984)	(5)	(990)	-

Deferred tax assets and liabilities

The deferred tax amount on the balance sheet for Barclays Bank UK Group is £792m (2017: £nil) and for Barclays Bank UK PLC is £790m (2017: £nil). All of these deferred tax assets are in the UK Tax Group and relate entirely to temporary differences.

Of the deferred tax asset of £792m (2017: £nil), an amount of £nil (2017: £nil) relates to entities which have suffered a loss in either the current or prior year. This has been taken into account in reaching the above conclusion that these deferred tax assets will be fully recovered in the future.

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.

Barclays Bank UK Group	Fixed asset timing differences £m	Loan impairment allowance £m	Other £m	Total £m
Assets	-	-	-	-
Liabilities	-	-	-	-
At 1 January 2018	-	-	-	-
Income statement	(8)	-	1	(7)
Other comprehensive income	-	(30)	3	(27)
Transfer of UK banking business	447	279	21	747
Other movements	78	-	1	79
	517	249	26	792
Assets	517	249	33	799
Liabilities	-	-	(7)	(7)
At 31 December 2018	517	249	26	792

Barclays Bank UK PLC	Fixed asset timing differences £m	Loan impairment allowance £m	Other £m	Total £m
Assets	-	-	-	-
Liabilities	-	-	-	-
At 1 January 2018	-	-	-	-
Income statement	(8)	-	1	(7)
Other comprehensive income	-	(30)	3	(27)
Transfer of UK banking business	447	279	21	747
Other movements	78	-	(1)	77
	517	249	24	790
Assets	517	249	31	797
Liabilities	-	-	(7)	(7)
At 31 December 2018	517	249	24	790

The amount of deferred tax liability expected to be settled after more than 12 months for the Barclays Bank UK Group is £nil (2017: £nil) and for Barclays Bank UK PLC is £nil (2017: £nil). The amount of deferred tax asset expected to be recovered after more than 12 months for the Barclays Bank UK Group is £680m (2017: £nil) and for Barclays Bank UK PLC is £680m (2017: £nil). 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

The amount of unrecognised deferred tax assets and liabilities relating to tax losses, temporary differences or investments in subsidiaries, branches and associates in both Barclays Bank UK PLC and Barclays Bank UK Group is £nil (2017: £nil).

11 Dividends on ordinary shares

The 2018 financial statements include £350m (2017: £nil) of half year dividend paid. This results in a total dividend for the year of 0.69p (2017: nil) per ordinary share.

Dividends paid on other equity instruments amounted to £105m (2017: £nil). For further detail on other equity instruments, please refer to Note 27.

Assets and liabilities held at fair value

The notes included in this section focus on assets and liabilities the Barclays Bank UK 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 arm's-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 estimate based on available market data. Detail regarding the Barclays Bank UK Group's approach to managing market risk can be found on page 36.

12 Trading portfolio

Accounting for trading portfolio assets and liabilities

In accordance with IFRS 9, all assets and liabilities held for trading purposes are held at fair value with gains and losses in the changes in fair value taken to the income statement in net trading income (Note 6).

	Barclays Bank UK Group 2018 £m	Barclays Bank UK PLC 2018 £m
Debt securities and other eligible bills	151	151
Trading portfolio assets	**151**	**151**
Debt securities and other eligible bills	(1,269)	(1,269)
Trading portfolio liabilities	**(1,269)**	**(1,269)**

Trading debt securities (assets) are part of managed assets within Treasury. Trading debt securities (liabilities) relate to short positions held for hedging fair value loans.

13 Financial assets at fair value through the income statement

Accounting for financial assets designated at fair value

Financial assets, other than those held for trading, are classified in this category if they are so irrevocably designated at inception and the use of the designation removes or significantly reduces an accounting mismatch.

Subsequent changes in fair value for these instruments are recognised in the income statement in net investment income, except if reporting it in trading income reduces an accounting mismatch.

The details on how the fair value amounts are derived for financial assets at fair value are described in Note 16.

	Barclays Bank UK Group 2018 £m	Barclays Bank UK PLC 2018 £m
Loans and advances	3,880	3,880
Financial assets designated at fair value	**3,880**	**3,880**

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 attributable to changes in credit risk, and the cumulative changes in fair value since initial recognition together with the amount by which related credit derivatives mitigate this risk:

	Barclays Bank UK Group			Barclays Bank UK PLC		
	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
	2018	2018	2018	2018	2018	2018
	£m	£m	£m	£m	£m	£m
Loans and advances designated at fair value, attributable to credit risk	3,880	3	(27)	3,880	3	(27)
Value mitigated by related credit derivatives	-	-	-	-	-	-

14 Derivative financial instruments

Accounting for derivatives

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 Barclays Bank UK Group's net interest income, net trading income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. Derivatives are used to hedge interest rate, exchange rate, and exposures to certain indices such as house price indices and retail price indices related to non-trading positions.

All derivative instruments are held at fair value through profit or loss, except for derivatives that are in a designated cash flow or net investment hedge accounting relationship. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes terms included in a contract or financial liability (the host), which, had it been a standalone contract, would have met the definition of a derivative. If these are separated from the host, i.e. when the economic characteristics of the embedded derivative are not closely related with those of the host contract and the combined instrument is not measured at fair value through profit or loss, then they are accounted for in the same way as derivatives. For financial assets, the requirements are whether the financial asset contain contractual terms that give rise on specified dates to cash flows that are SPPI, and consequently the requirements for accounting for embedded derivatives are not applicable to financial assets.

Hedge accounting

The Barclays Bank UK Group applies the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting purposes. The Barclays Bank UK Group applies hedge accounting to represent, the economic effects of its interest rate and currency risk management strategies. Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Barclays Bank UK Group applies fair value hedge accounting and cash flow hedge accounting.

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. For items classified as fair value through other comprehensive income, the hedge accounting adjustment is included in other comprehensive income.

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.

	Barclays Bank UK Group			Barclays Bank UK PLC		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
As at 31 December 2018						
Total derivative assets/(liabilities) held for trading	317,325	241	(419)	316,818	241	(436)
Total derivative assets/(liabilities) held for risk management	57,932	-	-	57,932	-	-
Derivative assets/(liabilities)	375,257	241	(419)	374,750	241	(436)

Derivative asset exposures would be £19m lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which Barclays Bank UK Group holds cash collateral. Similarly, derivative liabilities would be £416m lower reflecting counterparty netting and collateral placed.

Further Information on netting arrangements of derivative financial instruments can be found within Note 17 Offsetting financial assets and financial liabilities.

Whilst all derivatives are entered into with the purpose of economic hedging and managed under Barclays Bank UK Group's Treasury and Capital risk policies, only those designated in hedge accounting arrangements in accordance with IAS39 are classified as 'held for risk management' with the remainder classified as 'held for trading'. A small proportion of these held for trading derivatives are used to hedge the liquidity pool and managed under the Barclays Bank UK Group's market risk policies. For more information on the management of market risk in Barclays Bank UK Group, refer to page 36.

The fair values and notional amounts of derivatives held for trading are set out in the following table:

Derivatives held for trading	Barclays Bank UK Group			Barclays Bank UK PLC		
	Notional contract amount	Fair value Assets	Fair value Liabilities	Notional contract amount	Fair value Assets	Fair value Liabilities
	£m	£m	£m	£m	£m	£m
As at 31 December 2018						
Foreign exchange derivatives						
Forward foreign exchange	7,684	16	(23)	7,684	16	(23)
Currency swaps	244	55	(59)	122	-	(59)
OTC derivatives	7,928	71	(82)	7,806	16	(82)
Foreign exchange derivatives	7,928	71	(82)	7,806	16	(82)
Interest rate derivatives						
Interest rate swaps	12,796	88	(335)	11,796	26	(335)
OTC derivatives	12,796	88	(335)	11,796	26	(335)
Interest rate derivatives cleared by central counterparty	296,601	82	(2)	296,601	82	(2)
Interest rate derivatives	309,397	170	(337)	308,397	108	(337)
Derivatives with subsidiaries	-	-	-	615	117	(17)
Derivative assets/(liabilities) held for trading	317,325	241	(419)	316,818	241	(436)
Total OTC derivatives held for trading	20,724	159	(417)	19,602	42	(417)
Total derivatives cleared by central counterparty held for trading	296,601	82	(2)	296,601	82	(2)
Derivatives with subsidiaries held for trading	-	-	-	615	117	(17)
Derivative assets/(liabilities) held for trading	317,325	241	(419)	316,818	241	(436)

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	Barclays Bank UK Group			Barclays Bank UK PLC		
	Notional contract amount	Fair value Assets	Fair value Liabilities	Notional contract amount	Fair value Assets	Fair value Liabilities
	£m	£m	£m	£m	£m	£m
As at 31 December 2018						
Derivatives designated as cash flow hedges						
Interest rate derivatives cleared by central counterparty	26,547	-	-	26,547	-	-
Derivatives designated as cash flow hedges	26,547	-	-	26,547	-	-
Derivatives designated as fair value hedges						
Interest rate derivatives cleared by central counterparty	31,385	-	-	31,385	-	-
Derivatives designated as fair value hedges	31,385	-	-	31,385	-	-
Derivative assets/(liabilities) held for risk management	57,932	-	-	57,932	-	-
Total derivatives cleared by central counterparty held for risk management	57,932	-	-	57,932	-	-
Derivative assets/(liabilities) held for risk management	57,932	-	-	57,932	-	-

The Barclays Bank UK 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	Up to one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
	£m	£m	£m	£m	£m	£m	£m
2018							
Barclays Bank UK Group							
Forecast receivable cash flows	737	204	205	142	82	62	42
Barclays Bank UK PLC							
Forecast receivable cash flows	737	204	205	142	82	62	42

The maximum length of time over which the Barclays Bank UK 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.

Amounts recognised in net interest income	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Losses on the hedged items attributable to the hedged risk	(324)	(324)
Gains on the hedging instruments	396	396
Fair value ineffectiveness	72	72
Cash flow hedging ineffectiveness	10	10

Gains and losses transferred from the cash flow hedging reserve to the income statement included a £1m loss to interest expense for both Barclays Bank UK Group and Barclays Bank UK PLC.

Hedge accounting

Hedge accounting is applied predominantly for the following risks:

(i) Interest rate risk - Interest rate risk predominantly arises due to a mismatch between fixed interest rates and floating interest rates.
(ii) Currency risk - Currency risk arises due to assets or liabilities being denominated in different currencies than the functional currency of the relevant entity.

In order to hedge the risks to which Barclays Bank UK Group is exposed, the hedging instruments employed are interest rate swaps to:

(i) Swap fixed interest rate exposures into variable rates.
(ii) Swap variable interest rate exposures into fixed rates.

The hedging instruments share the same interest rate risk exposures as the hedged items. Hedge effectiveness is assessed with reference to the shared risks, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in hedge ineffectiveness or hedge accounting failures.

In some cases, certain items which are economically hedged may be ineligible hedged items for the purposes of IAS 39, such as core deposits and equity. In these instances, a proxy hedging solution can be utilised whereby portfolios of floating rate assets are designated as eligible hedged items in cash flow hedges.

The ratio between the hedged item and the hedging instruments is typically determined with reference to the sensitivity of the hedged item on designation to the risk factor, compared to that of the hedging instrument. In many cases the ratio is 100%.

In some hedging relationships, Barclays Bank UK Group would designate risk components of hedged items as follows:
(i) Benchmark interest rate risk as a component of interest rate risk, such as the LIBOR component.
(ii) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.
(iii) Spot exchange rate risk for foreign currency financial assets or financial liabilities.

Using the benchmark interest rate risk results in other risks such as credit risk and liquidity risk being excluded from the hedge accounting relationship. LIBOR is considered the predominant interest rate risk and therefore the hedged items change in fair value on a fully proportionate basis with reference to this risk.

For disclosures of the extent of risk exposures that Barclays Bank UK Group manages please refer to the Risk review section.

In respect of many of Barclays Bank UK Group's hedge accounting relationships, the hedged item and hedging instrument change frequently due to the dynamic nature of the risk management and hedge accounting strategy.

The Barclays Bank UK Group risk management strategy is to hedge interest rate risk with interest rate derivatives (predominantly interest rate swaps) and currency risk with currency derivatives. The interest rate risk management strategy is to reduce Barclays Bank UK Group's exposure to interest rate risk to within approved risk limits.

The Barclays Bank UK Group applies hedge accounting to dynamic scenarios, predominantly in relation to interest rate risk, with a combination of hedged items (some hedged items are designated by proxy) in order for its financial statements to reflect as closely as possible the economic risk management undertaken. Hedge relationships are analysed and rebalanced on a daily basis. In some cases, if the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

Sources of ineffectiveness affecting hedge accounting are as follows:

(i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument.

(ii) Changes in credit risk of the hedging instruments.

(iii) If a hedge accounting relationship becomes overhedged. This might occur in hedges of net investments if the net asset value designated at the start of the period falls below the amount of the hedging instrument.

No other source of ineffectiveness has arisen during the period. Hedge effectiveness is determined with reference to quantitative tests, predominantly regression testing, which takes into account the regression co-efficient, the slope of the regression line, and ensuring that the relevant confidence intervals are complied with. There were no instances of forecast transactions for which hedge accounting had been used in the previous period, but which are no longer expected to occur.

Amount, timing and uncertainty of future cash flows

The following hedging instruments are carried on the Barclays Bank UK Group's balance sheet at year end:

Hedge type	Risk category	Nominal amount £m	Change in fair value used as a basis to determine ineffectiveness £m
As at 31 December 2018			
Barclays Bank UK Group			
Fair value	Interest rate risk	31,385	396
Cash flow	Interest rate risk	26,547	35
Barclays Bank UK PLC			
Fair value	Interest rate risk	31,385	396
Cash flow	Interest rate risk	26,547	35

The following table profiles the expected notional values of current hedging instruments in future years:

As at 31 December 2018	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and later £m
Barclays Bank UK Group						
Fair value hedges of interest rate risk						
Notional amount	28,183	26,632	21,815	18,272	18,019	14,816

As at 31 December 2018	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and later £m
Barclays Bank UK PLC						
Fair value hedges of interest rate risk						
Notional amount	28,183	26,632	21,815	18,272	18,019	14,816

For both Barclays Bank UK Group and Barclays Bank UK PLC, there are 781 fair value hedges, with an average fixed rate of 2.83% across the relationships.

Hedged items in fair value hedge accounting relationships including the ineffectiveness recognised in the income statement						
		Accumulated fair value adjustment included in carrying amount				
Hedged item statement of financial position classification and risk category	Carrying amount	Total	Of which: Accumulated fair value adjustment on items no longer in a hedge relationship	Change in fair value used as a basis to determine ineffectiveness	Hedge ineffectiveness recognised in the income statement	Line item in the income statement used to recognise ineffectiveness
As at 31 December 2018	£m	£m	£m	£m	£m	
Barclays Bank UK Group						
Assets						
Loans and advances classified as amortised cost						
- Interest rate risk	6,174	(427)	(682)	(332)	116	Net interest income
Debt securities classified as FVOCI						
- Interest rate risk	3,768	22	(23)	26	-	
Liabilities						
Debt securities in issue classified as amortised cost						
- Interest rate risk	13,369	(120)	10	(18)	(44)	Net interest income
Barclays Bank UK PLC						
Assets						
Loans and advances classified as amortised cost						
- Interest rate risk	6,174	(427)	(682)	(332)	116	Net interest income
Debt securities classified as FVOCI						
- Interest rate risk	3,768	22	(23)	26	-	
Liabilities						
Debt securities in issue classified as amortised cost						
- Interest rate risk	13,369	(120)	10	(18)	(44)	Net interest income

For items classified as fair value through other comprehensive income, the hedge accounting adjustment is not included in the carrying amount, but rather adjusts other comprehensive income.

Hedged items in cash flow hedge accounting including the effect on the income statement and OCI						
Description of hedge relationship and hedged risk	Change in value of hedged item used as the basis for recognising ineffectiveness	Balance in cash flow hedge reserve for continuing hedges	Balances remaining in cash flow hedge reserve for which hedge accounting is no longer applied	Hedging gains or losses recognised in OCI during the period	Hedge ineffectiveness recognised within the income statement	Line item in the statement of comprehensive income used to recognise ineffectiveness
	£m	£m	£m	£m's	£m's	
As at 31 December 2018						
Barclays Bank UK Group						
Cash flow hedge of interest rate risk						
Loans and advances classified as amortised cost	(25)	(57)	31	(25)	10	Net interest income
Barclays Bank UK PLC						
Cash flow hedge of interest rate risk						
Loans and advances classified as amortised cost	(25)	(57)	31	(25)	10	Net interest income

Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period:

Description of hedge relationship and hedged risk	Amount recycled from OCI during the period due to hedged item affecting income statement
As at 31 December 2018	£m
Barclays Bank UK Group	
Cash flow hedge of interest rate risk	
- Recycled to interest income	1
Barclays Bank UK PLC	
Cash flow hedge of interest rate risk	
- Recycled to interest income	1

A detailed reconciliation of the movements of the cash flow hedge reserve is as follows:

	Barclays Bank UK Group	Barclays Bank UK PLC
	£m	£m
Balance on 1 January 2018	-	-
Hedging gains / losses for the reporting period	(26)	(26)
Amounts reclassified to profit or loss		
- In relation to cash flows no longer expected to occur	(1)	(1)
Tax	7	7
Balance on 31 December 2018	(20)	(20)

15 Financial assets at fair value through other comprehensive income

Accounting for financial assets at fair value through other comprehensive income ('FVOCI')

Financial assets that are debt instruments held in a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at FVOCI. They are subsequently re-measured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Interest (calculated using the effective interest method) is recognised in the income statement in net interest income (Note 4). Upon disposal, the cumulative gain or loss recognised in other comprehensive income is included in net investment income.

In determining whether the business model is achieved by both collecting contractual cash flows and selling financial assets, it is determined that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The Barclays Bank UK Group will consider past sales and expectations about future sales to establish if the business model is achieved.

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Debt securities and other eligible bills	6,710	6,710
Financial assets at fair value through other comprehensive income	6,710	6,710

As at 31 December 2017, Barclays Bank UK Group had £5m of financial investments, which were subsequently reclassified to financial assets at fair value through other comprehensive income on 1 January 2018.

16 Fair value of financial instruments

Accounting for financial assets and liabilities – fair values

Financial instruments that are held for trading are recognised at fair value through profit or loss. In addition, financial assets are held at fair value through profit or loss if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI, or if the financial asset is not held in a business model that is either (i) a business model to collect the contractual cash flows or (ii) a business model that is achieved by both collecting contractual cash flows and selling. Subsequent changes in fair value for these instruments are recognised in the income statement in net investment income, except if reporting it in trading income reduces an accounting mismatch.

All financial instruments are initially recognised at fair value on the date of initial recognition (including transaction costs, other than financial instruments held at fair value through profit or loss) and, depending on the classification of the asset or liability, 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 Barclays Bank UK 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 inputs including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

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 possible changes in significant unobservable inputs is shown on page 143.

Critical accounting estimates and judgements
The valuation of financial instruments often involves a significant degree of judgement and complexity, in particular where valuation models make use of unobservable inputs ('Level 3' assets and liabilities). This note provides information on these instruments, including the related unrealised gains and losses recognised in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

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 either directly or indirectly. 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.

The following tables show Barclays Bank UK Group and Barclays Bank UK PLC's assets and liabilities that are held at fair value disaggregated by valuation technique (fair value hierarchy) and balance sheet classification:

Assets and liabilities held at fair value

	2018				2017			
	Valuation technique using				Valuation technique using			
Barclays Bank UK Group	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Trading portfolio assets	-	151	-	151	-	-	-	-
Financial assets at fair value through the income statement	-	28	3,852	3,880				
Derivative financial assets	-	241	-	241	-	-	-	-
Available for sale investments	-	-	-	-	5	-	-	5
Financial assets at fair value through other comprehensive income	2,901	3,809	-	6,710	-	-	-	-
Total assets	2,901	4,229	3,852	10,982	5	-	-	5
Trading portfolio liabilities	(1,252)	(17)	-	(1,269)	-	-	-	-
Derivative financial liabilities	-	(419)	-	(419)	-	-	-	-
Total liabilities	(1,252)	(436)	-	(1,688)	-	-	-	-

Assets and liabilities held at fair value

Assets and liabilities held at fair value

Barclays Bank UK PLC As at 31 December	2018 Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m	 Total £m	2017 Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m	 Total £m
Trading portfolio assets	-	151	-	151	-	-	-	-
Financial assets at fair value through the income statement	-	28	3,852	3,880	-	-	-	-
Derivative financial assets	-	241	-	241	-	-	-	-
Available for sale investments	-	-	-	-	5	-	-	5
Financial assets at fair value through other comprehensive income	2,901	3,809	-	6,710	-	-	-	-
Total assets	2,901	4,229	3,852	10,982	5	-	-	5
					-	-	-	-
Trading portfolio liabilities	(1,252)	(17)	-	(1,269)	-	-	-	-
Derivative financial liabilities	-	(436)	-	(436)	-	-	-	-
Total liabilities	(1,252)	(453)	-	(1,705)	-	-	-	-

The following tables show Barclays Bank UK Group and Barclays Bank UK PLC'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

Barclays Bank UK Group As at 31 December 2018	Assets Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m	Liabilities Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m
Interest rate derivatives	-	170	-	-	(337)	-
Foreign exchange derivatives	-	71	-	-	(82)	-
Government and government sponsored debt	2,901	3,777	-	(1,252)	(17)	-
Corporate debt	-	134	-	-	-	-
Non-asset backed loans	-	28	3,852	-	-	-
Asset backed securities	-	49	-	-	-	-
Total	2,901	4,229	3,852	(1,252)	(436)	-
As at 31 December 2017						
Government and government sponsored debt	5	-	-	-	-	-
Total	5	-	-	-	-	-

Assets and liabilities held at fair value by product type

Barclays Bank UK PLC As at 31 December 2018	Assets Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m	Liabilities Valuation technique using Level 1 £m	 Level 2 £m	 Level 3 £m
Interest rate derivatives	-	108	-	-	(337)	-
Foreign exchange derivatives	-	133	-	-	(99)	-
Government and government sponsored debt	2,901	3,777	-	(1,252)	(17)	-
Corporate debt	-	134	-	-	-	-
Non-asset backed loans	-	28	3,852	-	-	-
Asset backed securities	-	49	-	-	-	-
Total	2,901	4,229	3,852	(1,252)	(453)	-
As at 31 December 2017						
Government and government sponsored debt	5	-	-	-	-	-
Total	5	-	-	-	-	-

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 the 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 material products within Levels 2 and 3, and observability and sensitivity analysis for products within Level 3, are described below.

Interest rate derivatives
Description: Derivatives linked to interest rates or inflation indices. The category includes futures, interest rate and inflation swaps, swaptions, caps, floors and balance guaranteed swaps.

Valuation: Interest rate and inflation derivatives are generally valued using curves of forward rates constructed from market data to project and discount the expected future cash flows of trades. Instruments with optionality are valued using volatilities implied from market inputs, and use industry standard or bespoke models depending on the product type.

Observability: In general, inputs are considered observable up to liquid maturities which are determined separately for each input and underlying. Unobservable inputs are generally set by referencing liquid market instruments and applying extrapolation techniques or inferred via another reasonable method.

Level 3 sensitivity: Sensitivity to unobservable valuation inputs is based on the dispersion of consensus data services where available, or alternatively it is based on stress scenarios or historical data.

Foreign exchange derivatives
Description: Derivatives linked to the foreign exchange (FX) market. The category includes FX forward contracts, FX swaps and FX options. The majority are traded as over the counter (OTC) derivatives.

Valuation: FX derivatives are valued using industry standard and bespoke models depending on the product type. Valuation inputs include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate.

Observability: FX correlations, forwards and volatilities are generally observable up to liquid maturities which are determined separately for each input and underlying. Unobservable inputs are set by referencing liquid market instruments and applying extrapolation techniques, or inferred via another reasonable method.

Level 3 sensitivity: Sensitivity relating to unobservable valuation inputs is primarily based on the dispersion of consensus data services.

Government and government sponsored debt
Description: Government bonds, supra sovereign bonds and agency bonds.

Valuation: Liquid bonds that are actively traded through an exchange or clearing house are marked to the levels observed in these markets. Other actively traded bonds are valued using observable market prices sourced from broker quotes, inter-dealer prices or other reliable pricing sources.

Observability: Prices for actively traded bonds are considered observable. Unobservable bonds prices are generally determined by reference to bond yields for actively traded bonds from the same (or a similar) issuer.

Level 3 sensitivity: Sensitivity is generally determined by using a range of observable alternative prices.

Corporate debt
Description: Primarily corporate bonds.

Valuation: Corporate bonds are valued using observable market prices sourced from broker quotes, inter-dealer prices or other reliable pricing sources.

Observability: Prices for actively traded bonds are considered observable. Unobservable bonds prices are generally determined by reference to bond yields or CDS spreads for actively traded instruments issued by or referencing the same (or a similar) issuer.

Level 3 sensitivity: Sensitivity is generally determined by applying a shift to bond yields using the average ranges of external levels observed in the market for similar bonds.

Non-asset backed loans
Description: Largely made up of fixed rate loans.

Valuation: Fixed rate loans are valued using models that discount expected future cash flows based on interest rates and loan spreads.

Observability: Within this loan population, the loan spread is generally unobservable. Unobservable loan spreads are determined by incorporating funding costs, the level of comparable assets such as gilts, issuer credit quality and other factors.

Level 3 sensitivity: The sensitivity of fixed rate loans is calculated by applying a shift to loan spreads.

Asset backed securities

Description: Securities that are linked to the cash flows of a pool of referenced assets via securitisation. The category includes residential mortgage backed securities, commercial mortgage backed securities, CDOs, collateralised loan obligations (CLOs) and other asset backed securities.

Valuation: Where available, valuations are based on observable market prices 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 discounted cash flow analysis, the instrument is considered unobservable.

Level 3 sensitivity: The sensitivity analysis for asset backed products is based on externally sourced pricing dispersion or by stressing the inputs of discount cash flow analysis.

Level 3 movement analysis

The following tables summarise the movements in the Level 3 balances during the period. Transfers have been reflected as if they had taken place at the beginning of the year.

Asset and liability transfers between Level 2 and Level 3 are primarily due to 1) an increase or decrease in observable market activity related to an input or 2) a change in the significance of the unobservable input, with assets and liabilities classified as Level 3 if an unobservable input is deemed significant.

Analysis of movements in Level 3 assets and liabilities

						Total gains and losses in the period recognised in the income statement			Transfers		
	As at 1 January 2018	Purchases[a]	Sales	Issues	Settlements	Trading income	Other income	Total gains or losses recognised in OCI	In	Out	As at 31 December 2018
Barclays Bank UK Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-asset backed loans	-	4,432	-	-	(604)	24	-	-	-	-	3,852
Financial assets at fair value through the income statement	**-**	**4,432**	**-**	**-**	**(604)**	**24**	**-**	**-**	**-**	**-**	**3,852**

Note

a On 1 April 2018, £4.4bn of non-asset backed loans were transferred as part of the acquisition of the UK banking business.

Analysis of movements in Level 3 assets and liabilities

						Total gains and losses in the period recognised in the income statement			Transfers		
	As at 1 January 2018	Purchases[a]	Sales	Issues	Settlements	Trading income	Other income	Total gains or losses recognised in OCI	In	Out	As at 31 December 2018
Barclays Bank UK PLC	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-asset backed loans	-	4,432	-	-	(604)	24	-	-	-	-	3,852
Financial assets at fair value through the income statement	**-**	**4,432**	**-**	**-**	**(604)**	**24**	**-**	**-**	**-**	**-**	**3,852**

Note

a On 1 April 2018, £4.4bn of non-asset backed loans were transferred as part of the acquisition of the UK banking business.

Unrealised gains and losses on Level 3 financial assets and liabilities
The following tables disclose the unrealised gains and losses recognised in the year arising on Level 3 financial assets and liabilities held at year end.

Unrealised gains and losses recognised during the period on Level 3 assets and liabilities held at year end

	2018			
	Income statement			
Barclays Bank UK Group	Trading income	Other income	Other comprehensive income	Total
As at 31 December	£m	£m	£m	£m
Financial assets at fair value through the income statement	24	-	-	24
Total	24	-	-	24

Unrealised gains and losses recognised during the period on Level 3 assets and liabilities held at period end

	2018			
	Income statement			
Barclays Bank UK PLC	Trading income	Other income	Other comprehensive income	Total
As at 31 December	£m	£m	£m	£m
Financial assets designated at fair value through the income statement	24	-	-	24
Total	24	-	-	24

Sensitivity analysis of valuations using unobservable inputs

	2018			
	Favourable changes		Unfavourable changes	
	Income statement	Equity	Income statement	Equity
	£m	£m	£m	£m
Non asset backed loans	133	-	(248)	-
Total	133	-	(248)	-

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 £133m or to decrease fair values by up to £248m with all the potential effect impacting profit and loss rather than reserves.

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:

			2018 Range		
	Valuation technique(s)	Significant unobservable inputs	Min	Max	Units[a]
Non-asset backed loans	Discounted cash flows	Loan spread	31	531	bps

Note
a 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%.

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.

Loan spread
Loan spreads typically represent the difference in yield between an instrument and a benchmark security or reference rate. Loan spreads typically reflect credit quality, the level of comparable assets such as gilts and other factors, and form part of the yield used in a discounted cash flow calculation.

The ESHLA portfolio primarily consists of long-dated fixed rate loans extended to counterparties in the UK Education, Social Housing and Local Authority sectors. The loans are categorised as Level 3 in the fair value hierarchy due to their illiquid nature and the significance of unobservable loan spreads to the valuation. Valuation uncertainty arises from the long-dated nature of the portfolio, the lack of secondary market in the loans and the lack of observable loan spreads. The majority of ESHLA loans are to borrowers in heavily regulated sectors that are considered extremely low credit risk, and have a history of zero defaults since inception. While the overall loan spread range is from 31bps to 531bps, the vast majority of spreads are concentrated towards the bottom end of this range, with 99% of the loan notional being valued with spreads less than 200bps.

In general, a significant increase in loan spreads in isolation will result in a fair value decrease for a loan.

Portfolio exemptions
The Barclays Bank UK Group uses the portfolio exemption in IFRS 13 *Fair Value Measurement* to measure the fair value of groups of financial assets and liabilities. Instruments 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. Accordingly, the Barclays Bank UK Group measures the fair value of the group of financial assets and liabilities consistently with how market participants would price the net risk exposure at the measurement date.

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 £14m for financial instruments measured at fair value and £231m for financial instruments carried at amortised cost. The balance of £14m in financial instruments measured at fair value reflects a transfer in of £15m from Barclays Bank Group, offset by £1m subsequent amortization and releases. The balance of £231m in financial instruments carried at amortised cost reflects the transfer in of £222m from Barclays Bank Group and subsequent additions of £27m, offset by subsequent amortisation and releases of £18m.

Comparison of carrying amounts and fair values

The following tables summarise the fair value of financial assets and liabilities measured at amortised cost on Barclays Bank UK Group's and Barclays Bank UK PLC's balance sheets:

Barclays Bank UK Group	2018					2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Loans and advances to customers at amortised cost										
– Home loans	137,124	136,304	-	-	136,304	-	-	-	-	-
– Credit cards, unsecured and other retail lending	22,626	23,334	657	-	22,677	-	-	-	-	-
– Corporate loans	28,815	27,253	1,377	3,670	22,206	53	53	-	53	-
Reverse repurchase agreements and other similar secured lending	1,759	1,759	-	1,759	-	-	-	-	-	-
Financial liabilities										
Deposits at amortised cost										
– Banks	(29)	(29)	(12)	(17)	-	-	-	-	-	-
– Current and demand accounts	(71,450)	(71,450)	(71,450)	-	-	-	-	-	-	-
– Savings accounts	(110,611)	(110,611)	(110,611)	-	-	-	-	-	-	-
– Other time deposits	(15,395)	(15,414)	(9,568)	-	(5,846)	-	-	-	-	-
Repurchase agreements and other similar secured lending	(11,978)	(11,978)	-	(11,978)	-	-	-	-	-	-
Debt securities in issue	(11,172)	(11,681)	-	(10,425)	(1,256)	-	-	-	-	-
Subordinated liabilities	(7,548)	(7,548)	-	(7,548)	-	-	-	-	-	-

Barclays Bank UK PLC	2018					2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Loans and advances at amortised cost										
– Home loans	137,124	136,304	-	-	136,304	-	-	-	-	-
– Credit cards, unsecured and other retail lending	22,621	23,330	657	-	22,673	-	-	-	-	-
– Corporate loans	28,861	27,298	1,377	3,715	22,206	33	33	-	33	-
Reverse repurchase agreements and other similar secured lending	1,759	1,759	-	1,759	-	-	-	-	-	-
Financial liabilities										
Deposits at amortised cost										
– Banks	(29)	(29)	(12)	(17)	-	-	-	-	-	-
– Current and demand accounts	(71,450)	(71,450)	(71,450)	-	-	-	-	-	-	-
– Savings accounts	(110,609)	(110,609)	(110,609)	-	-	-	-	-	-	-
– Other time deposits	(16,943)	(16,961)	(9,571)	(1,544)	(5,846)	-	-	-	-	-
Repurchase agreements and other similar secured lending	(11,978)	(11,978)	-	(11,978)	-	-	-	-	-	-
Debt securities in issue	(9,912)	(10,425)	-	(10,425)	-	-	-	-	-	-
Subordinated liabilities	(7,548)	(7,548)	-	(7,548)	-	-	-	-	-	-

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 this fair value information to independent market sources 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 in Note 18.

Loans and advances at amortised cost
The fair value of loans and advances, 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. 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.

For retail lending (i.e. home loans and credit cards) tailored discounted cash flow models are predominantly 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 historical and current product margins and estimated prepayment rates.

The fair value of corporate loans is 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 Bank UK Group charges a margin over LIBOR depending on credit quality and loss given default and years to maturity.

Reverse repurchase agreements
The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short dated and fully collateralised.

Financial liabilities
The carrying value of financial liabilities held at amortised cost (including customer accounts, other deposits, repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the accounting policy in Note 1.

Deposits at amortised cost
In many cases, the fair value disclosed approximates carrying value because the instruments are short term in nature or have interest rates that reprice frequently, such as customer accounts and other deposits and short-term debt securities.

The fair value for deposits with longer-term maturities, mainly 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 based on quoted prices where available, or where the instruments are short dated, carrying amount approximates fair value.

Repurchase agreements
The fair value of repurchase agreements approximates carrying amounts as these balances are generally short dated.

Subordinated liabilities
Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issuer concerned or issuers with similar terms and conditions.

17 Offsetting financial assets and financial liabilities

In accordance with IAS 32 *Financial Instruments: Presentation*, the Barclays Bank UK 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 tables show the impact of netting arrangements on:

- all financial assets and liabilities that are reported net on the balance sheet
- 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 are not intended to represent the Barclays Bank UK Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on-balance sheet			Related amounts not offset				
Barclays Bank UK Group	Gross amounts	Amounts offset[a]	Net amounts reported on the balance sheet	Financial instruments	Financial collateral[b]	Net amount	Amounts not subject to enforceable netting arrangements[c]	Balance sheet total[d]
As at 31 December 2018	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets	222	-	222	(19)	-	203	19	241
Reverse repurchase agreements and other similar secured lending[e]	2,183	(440)	1,743	-	(1,742)	1	16	1,759
Total assets	2,405	(440)	1,965	(19)	(1,742)	204	35	2,000
Derivative financial liabilities	(419)	-	(419)	19	397	(3)	-	(419)
Repurchase agreements and other similar secured borrowing[e]	(1,121)	440	(681)	-	681	-	(11,297)	(11,978)
Total liabilities	(1,540)	440	(1,100)	19	1,078	(3)	(11,297)	(12,397)

Notes

a 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 Financial cash collateral of £397m was placed in respect of derivative liabilities. The collateral amounts are limited to net balance sheet exposure so as to not include over-collateralisation.

c This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.

d 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'.

e Repurchase and other similar secured lending and reverse repurchase and other similar secured lending held at amortised cost.

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 International Swaps and Derivatives Association (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 transactions 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 'Amounts offset' 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 transactions 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 Barclays Bank UK Group are further explained in the Credit risk mitigation section on page 35.

Assets and liabilities held at fair value

Barclays Bank UK PLC	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on-balance sheet			Related amounts not offset				
	Gross amounts	Amounts offset[a]	Net amounts reported on the balance sheet	Financial instruments	Financial collateral[b]	Net amount	Amounts not subject to enforceable netting arrangements[c]	Balance sheet total[d]
As at 31 December 2018	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets	222	-	222	(19)	-	203	19	241
Reverse repurchase agreements and other similar secured lending[e]	2,183	(440)	1,743	-	(1,742)	1	16	1,759
Total assets	2,405	(440)	1,965	(19)	(1,742)	204	35	2,000
Derivative financial liabilities	(436)	-	(436)	19	397	(20)	-	(436)
Repurchase agreements and other similar secured borrowing[e]	(1,121)	440	(681)	-	681	-	(11,297)	(11,978)
Total liabilities	(1,557)	440	(1,117)	19	1,078	(20)	(11,297)	(12,414)

Notes

a 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 Financial cash collateral of £397m was placed in respect of derivative liabilities. The collateral amounts are limited to net balance sheet exposure so as to not include over-collateralisation.

c This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.

d 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'.

e Repurchase and other similar secured lending and reverse repurchase and other similar secured lending held at amortised cost.

Financial instruments held at amortised cost

The notes included in this section focus on instruments that are held at amortised cost arising from the Barclays Bank UK Group's retail and wholesale lending including loans and advances at amortised cost and deposits at amortised cost. Details regarding the Barclays Bank UK Group's liquidity and capital position can be found on pages 38 to 39.

18 Loans and advances and deposits at amortised cost

Accounting for loans and advances and deposits held at amortised cost under IFRS 9 effective from 1 January 2018

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. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate.

Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. Refer to Note 1 for details on 'solely payments of principal and interest'.

In determining whether the business model is a 'hold to collect' model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean Barclays Bank UK Group is required to hold the financial assets until maturity. When determining if the business model objective is to collect contractual cash flows Barclays Bank UK Group will consider past sales and expectations about future sales.

Accounting for loans and advances and deposits held at amortised cost under IAS 39 for 2017

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. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate.

In accordance with IAS 39, where the Barclays Bank UK 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.

Loans and advances at amortised cost

	Barclays Bank UK Group			Barclays Bank UK PLC		
	2018			2018		
	Loans to banks	Loans to customers	Total	Loans to banks	Loans to customers	Total
As at 31 December	£m	£m	£m	£m	£m	£m
Gross loans and advances at amortised cost excluding debt securities at amortised cost	1,004	188,879	189,883	644	189,280	189,924
Less: allowance for impairment	-	(2,927)	(2,927)	-	(2,927)	(2,927)
Loans and advances at amortised cost excluding debt securities at amortised cost	1,004	185,952	186,956	644	186,353	186,997
Debt securities at amortised cost	-	1,609	1,609	-	1,609	1,609
Total gross loans and advances at amortised cost	1,004	190,488	191,492	644	190,889	191,533
Less: allowance for impairment	-	(2,927)	(2,927)	-	(2,927)	(2,927)
Total loans and advances at amortised cost	1,004	187,561	188,565	644	187,962	188,606

Deposits at amortised cost

	Barclays Bank UK Group			Barclays Bank UK PLC		
	2018			2018		
	Deposits from banks	Deposits from customers	Total	Deposits from banks	Deposits from customers	Total
As at 31 December	£m	£m	£m	£m	£m	£m
Deposits at amortised cost	29	197,456	197,485	29	199,002	199,031

As at 31 December 2017, Barclays Bank UK Group had £53m of loans and advances at amortised cost, consisting entirely of loans and advances to banks and Barclays Bank UK PLC had £33m of loans and advances at amortised cost, consisting entirely of loans and advances to banks.

Notes to the financial statements
Non-current assets and other investments

The notes included in this section focus on the Barclays Bank UK Group's non-current tangible and intangible assets and property, plant and equipment, which provide long-term future economic benefits.

19 Property, plant and equipment

Accounting for property, plant and equipment

The Barclays Bank UK Group applies IAS 16 *Property Plant and Equipment*.

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 the 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 Barclays Bank UK 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%

	Barclays Bank UK Group	Barclays Bank UK PLC
	Property	Property
Cost	£m	£m
As at 1 January 2018	-	-
Transfer of UK banking business	958	958
Additions	40	40
Disposals	(30)	(30)
Exchange and other movements	1	1
As at 31 December 2018	969	969
Accumulated depreciation and impairment		
As at 1 January 2018	-	-
Transfer of UK banking business	(448)	(448)
Additions	-	-
Disposals	24	24
Depreciation charge	(45)	(45)
Impairment charge	(2)	(2)
Exchange and other movements	-	-
As at 31 December 2018	(471)	(471)
Net book value	498	498

Property rentals of £9m (2017: £nil) has been included other income.

20 Goodwill and intangible assets

Accounting for goodwill and intangible assets

Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.

Goodwill arising on the acquisition of subsidiaries represents the excess of the fair value of the purchase consideration over the fair value of the Barclays Bank UK 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

Intangible assets other than goodwill are accounted for in accordance with IAS 38 *Intangible Assets*.

Intangible assets 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 accumulated 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 using the amortisation periods set out below:

Annual rates in calculating amortisation	Amortisation period
Goodwill	Not amortised
Customer lists	12 months to 25 years

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

	Barclays Bank UK Group			Barclays Bank UK PLC		
	Goodwill	Customer lists	Total	Goodwill	Customer lists	Total
	£m	£m	£m	£m	£m	£m
Cost						
As at 1 January 2018	-	-	-	-	-	-
Transfer of UK banking business	3,526	90	3,616	3,378	90	3,468
Additions and disposals	-	-	-	-	-	-
Exchange and other movements	-	-	-	-	-	-
As at 31 December 2018	3,526	90	3,616	3,378	90	3,468
Accumulated amortisation and impairment						
As at 1 January 2018	-	-	-	-	-	-
Transfer of UK banking business	-	(79)	(79)	-	(79)	(79)
Additions and disposals	-	-	-	-	-	-
Amortisation charge	-	(3)	(3)	-	(3)	(3)
Impairment charge	-	-	-	-	-	-
Exchange and other movements	-	-	-	-	-	-
As at 31 December 2018	-	(82)	(82)	-	(82)	(82)
Net book value	3,526	8	3,534	3,378	8	3,386

Goodwill

Testing goodwill for impairment involves a significant amount of judgement. This includes the identification of independent CGUs 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 reorganisations. 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 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. 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.

The key assumptions used for impairment testing are set out below.

Key assumptions

Goodwill within Personal Banking was £2,718m (2017: £nil), of which £2,501m (2017: £nil) was attributable to Woolwich, and within Business Banking was £629m (2017: £nil), fully attributable to Woolwich. The carrying value of the CGUs have been determined by using net asset values. The recoverable amounts of the CGUs, calculated as value in use, have been determined using cash flow predictions based on financial budgets approved by management, covering a five-year period, with a terminal growth rate of 1.8% (2017: nil) applied thereafter. The forecasted cash flows have been discounted at a pre-tax rate of 13.7% (2017: nil). Based on these assumptions, the total recoverable amount exceeded the carrying amount including goodwill by £7,762m (2017: £nil). A one percentage point change in the discount rate or terminal growth rate would increase or decrease the recoverable amount by £1,501m (2017: £nil) and £980m (2017: £nil) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £1,828m (2017: £nil).

21 Operating leases

Accounting for operating leases

The Barclays Bank UK 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 Barclays Bank UK 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 Barclays Bank UK Group holds the leased assets on-balance sheet within property, plant and equipment.

Where the Barclays Bank UK 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 commitments

The Barclays Bank UK 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 Barclays Bank UK 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 £87m have been included in administration and general expenses.

The future minimum lease payments by the Barclays Bank UK Group and Barclays Bank UK PLC under non-cancellable operating leases are as follows:

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	Property	Property
	£m	£m
Not more than one year	**88**	**88**
Over one year but not more than five years	**239**	**239**
Over five years	**103**	**103**
Total	**430**	**430**

Total future minimum sublease payments to be received under non-cancellable subleases was £3m for Barclays Bank UK Group and £3m for Barclays Bank UK PLC.

Accruals, provisions, contingent liabilities and legal proceedings

The notes included in this section focus on the Barclays Bank UK Group's accruals, provisions and contingent liabilities. 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.

22 Accruals, deferred income and other liabilities

	Barclays Bank UK Group		Barclays Bank UK PLC	
	2018	2017	2018	2017
	£m	£m	£m	£m
Accruals and deferred income	395	-	377	-
Other creditors	1,364	8	1,170	1
Items in the course of collection due to other banks	129	-	129	-
Other liabilities	**1,888**	**8**	**1,676**	**1**

23 Provisions

Accounting for provisions

The Barclays Bank UK 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 Barclays Bank UK 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.

Critical accounting estimates and judgements

The financial reporting of provisions involves a significant degree of judgement and is complex. Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the outflows that may arise from past events requires judgements to be made based on the specific facts and circumstances relating to individual events and often requires specialist professional advice. When matters are at an early stage, accounting judgements and estimates can be difficult because of the high degree of uncertainty involved. Management continues to monitor matters as they develop to re-evaluate on an ongoing basis whether provisions should be recognised, however there can remain a wide range of possible outcomes and uncertainties, particularly in relation to legal, competition and regulatory matters, and as a result it is often not practicable to make meaningful estimates even when matters are at a more advanced stage.

The complexity of such matters often requires the input of specialist professional advice in making assessments to produce estimates. Customer redress and legal, competition and regulatory matters are areas where a higher degree of professional judgement is required. The amount that is recognised as a provision can also be very sensitive to the assumptions made in calculating it. This gives rise to a large range of potential outcomes which require judgement in determining an appropriate provision level. See below for information on payment protection redress and Note 25 for more detail of legal, competition and regulatory matters.

				Conduct redress				
	Onerous contracts	Redundancy and restructuring	Undrawn contractually committed facilities and guarantees provided[a]	Payment Protection Insurance	Other customer redress	Legal, competition and regulatory matters	Sundry provisions	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Barclays Bank UK Group								
As at 1 January 2018	-	-	-	-	-	-	1	1
Transfer of UK banking business	48	16	87	1,698	428	2	25	2,304
Additions	15	44	1	-	63	36	33	192
Amounts utilised	(14)	(8)	-	(810)	(140)	(35)	(17)	(1,024)
Unused amounts reversed	(7)	(5)	(34)	-	(34)	-	(8)	(88)
Exchange and other movements	-	-	-	-	-	-	(5)	(5)
As at 31 December 2018	42	47	54	888	317	3	29	1,380
Barclays Bank UK PLC								
As at 1 January 2018	-	-	-	-	-	-	-	-
Transfer of UK banking business	48	16	87	1,626	426	2	25	2,230
Additions	15	44	1	-	63	36	33	192
Amounts utilised	(14)	(8)	-	(768)	(140)	(35)	(17)	(982)
Unused amounts reversed	(7)	(5)	(34)	-	(33)	-	(8)	(87)
Exchange and other movements	-	-	-	-	-	-	(5)	(5)
As at 31 December 2018	42	47	54	858	316	3	28	1,348

Note

a Undrawn contractually committed facilities and guarantees provisions are accounted for under IFRS 9.

Provisions expected to be recovered or settled within no more than 12 months after 31 December 2018 were £1,280m for Barclays Bank UK Group and £1,249m for Barclays Bank UK PLC.

Onerous contracts

Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received.

Redundancy and restructuring

These provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. Additions made during the year relate to formal restructuring plans and have either been utilised, or reversed, where total costs are now expected to be lower than the original provision amount.

Undrawn contractually committed facilities and guarantees

Impairment allowance under IFRS 9 considers both the drawn and the undrawn counterparty exposure. For retail portfolios, the total impairment allowance is allocated to the drawn exposure to the extent that the allowance does not exceed the exposure as ECL is not reported separately. Any excess is reported on the liability side of the balance sheet as a provision. For wholesale portfolios the impairment allowance on the undrawn exposure is reported on the liability side of the balance sheet as a provision. Provisions are made if it is probable that a facility will be drawn and the resulting asset is expected to have a realisable value that is less than the amount advanced.

Customer redress

Customer redress 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 Barclays Bank UK's business activities. Provisions for other customer redress include smaller provisions across the businesses which are likely to be utilised in the next 12 months.

Legal, competition and regulatory matters

The Barclays Bank UK Group is engaged in various legal proceedings. For further information in relation to legal proceedings and discussion of the associated uncertainties, please refer to Note 25.

Sundry provisions

This category includes provisions that do not fit into any of the other categories, such as fraud losses and dilapidation provisions.

Payment Protection Insurance Redress

Prior to 1 April 2018, all complaints and PPI costs were incurred by Barclays Bank Group. From 1 April 2018, all complaints and obligations were transferred to Barclays Bank UK Group, along with the remaining provision value of £1.7bn.

As at 31 December 2018, the Barclays Bank UK Group held a provision totaling £0.9bn against the cost of PPI redress and associated processing costs.

The Barclays Group has recognised cumulative provisions totaling £9.6bn (Barclays Bank UK Group: £nil), against the cost of PPI redress and associated processing costs, with utilisation of £8.7bn (Barclays Bank UK Group: £0.8bn).

Through to 31 December 2018, 2.4 million (Barclays Bank UK Group: 0.2 million) customer initiated claims[a] had been received and processed by the Barclays Group.

The current provision reflects the estimate of costs of PPI redress primarily relating to customer initiated complaints and on-going remediation programs, based on information at year end. This also includes liabilities managed by third parties arising from portfolios previously sold where Barclays Bank UK Group remains liable.

As at 31 December 2018, the provision of £0.9bn represents Barclays' best estimate of expected PPI redress reflecting the complaints deadline implemented by the Financial Conduct Authority (FCA) of 29 August 2019. However, it is possible the eventual cumulative provision outcome may differ from the current estimate. Barclays Bank UK Group will continue to review the adequacy of provision level in respect of the future impacts.

The PPI provision is calculated using a number of key assumptions which continue to involve significant modelling and management judgement:

- Customer initiated claim volumes – claims received but not yet processed plus an estimate of future claims initiated by customers, where the volume is anticipated to cease after the PPI deadline
- Average claim redress – the expected average payment to customers for upheld claims based on the type and age of the policy/policies
- Processing cost per claim – the cost to Barclays of assessing and processing each valid claim

These assumptions remain subjective, mainly due to the uncertainty associated with future claims levels, which include complaints driven by claims management company (CMC) activity and the FCA advertising campaign.

Note

a Total mis-selling claims received directly by Barclays Bank UK Group, including those received via CMCs but excluding those for which no PPI policy exists and excluding responses to proactive mailing.

The following table details key forecast assumptions used in the provision calculation as at 31 December 2018 and a sensitivity analysis illustrating the impact on the provision if the future expected assumptions prove too high or too low.

Assumption	Future expected	Sensitivity analysis increase/decrease in provision
Customer initiated claims received and processed (thousands)[a]	290	50k=£117m
Average uphold rate per claim (%)[b]	91	1%=£6m
Average redress per valid claim (£)[c]	2,233	£100=£26m

Notes
a Total mis-selling claims received directly by Barclays Bank UK Group, including those received via CMCs but excluding those for which no PPI policy exists and excluding responses to proactive mailing. The sensitivity analysis has been calculated to show the impact a 50,000 increase or decrease in the number of customer initiated claims would have on the provision level inclusive of operational processing costs.
b Average uphold rate per customer initiated mis-selling claims received directly by Barclays Bank UK Group and proactive mailings, excluding those for which no PPI policy exists. The sensitivity analysis has been calculated to show the impact in a 1% change in the average uphold rate per claim would have on the provision level.
c Average redress stated on a per policy basis for future customer initiated mis-selling complaints received directly by Barclays Bank UK Group. The sensitivity analysis has been calculated to show the impact a £100 increase or decrease in the average redress per claim would have on the provision level.

24 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 likelihood of an 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:

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Guarantees and letters of credit pledged as collateral security	760	760
Performance guarantees, acceptances and endorsements	150	150
Total contingent liabilities	**910**	**910**
Standby facilities, credit lines and other commitments	66,435	66,435
Total commitments	**66,435**	**66,435**

Provisions held against contingent liabilities and commitments equal £54m for Barclays Bank UK Group and Barclays Bank UK PLC.

Contingent liabilities and commitment balances transferred from Barclays Bank PLC as part of the business acquisition on 1 April 2018 included guarantees and letters of credit pledged as collateral security of £793m and standby facilities, credit lines and other commitments of £67,791m. The balances transferred have subsequently reduced to £760m for guarantees and letters of credit pledged as collateral security and £66,435m for standby facilities, credit lines and other commitments at 31 December 2018.

The Financial Services Compensation Scheme (the FSCS) is the UK's government-backed compensation scheme for customers of authorised institutions that are unable to pay claims. The compensation paid out to customers is funded through loan facilities provided by HM Treasury to the FSCS which at 31 December 2018 has been completely repaid and has a £nil balance.

Further details on contingent liabilities relating to legal and competition and regulatory matters can be found in Note 25 Legal, competition and regulatory matters.

25 Legal, competition and regulatory matters

Barclays Bank UK PLC and the Barclays Bank UK Group face legal, competition and regulatory challenges, many of which are beyond our control. The extent of the impact on Barclays of these matters cannot always be predicted but may materially impact our operations, financial results, condition and prospects. Matters arising from a set of similar circumstances can give rise to either a contingent liability or a provision, or both, depending on the relevant facts and circumstances.

In connection with the implementation of structural reform in the UK, on 1 April 2018, the UK banking business was transferred from Barclays Bank PLC to Barclays Bank UK PLC. This transfer included the rights and liabilities in respect of the matters described below, although Barclays Bank PLC may remain the party on record to the relevant proceedings.

Investigations relating to retail structured deposits and capital protected structured notes

In 2015, the FCA commenced an enforcement investigation relating to the design, manufacture and sale of structured deposits by Barclays from November 2009. In January 2018, the FCA also commenced an enforcement investigation relating to the design, manufacture and sale of capital protected structured notes by Barclays from June 2008 to July 2014. The FCA has now closed these investigations with no action to be taken against Barclays.

Claimed amounts/Financial impact
There is no financial impact on Barclays' operating results, cash flows or financial position.

Investigation into collections and recoveries relating to unsecured lending
In February 2018, the FCA commenced an enforcement investigation in relation to whether or not Barclays implemented effective systems and controls with respect to collections and recoveries and whether or not it paid due consideration to the interests of customers in default and arrears.

Claimed amounts/Financial impact
It is not currently practicable to provide an estimate of the financial impact of the investigation on Barclays or what effect that it might have upon Barclays' operating results, cash flows or financial position in any particular period.

HM Revenue & Customs (HMRC) assessments concerning UK Value Added Tax
In 2018, HMRC issued notices that have the effect of removing certain overseas subsidiaries that have operations in the UK from Barclays' UK VAT group, in which group supplies between members are generally free from VAT. The notices have retrospective effect and correspond to assessments of £181m (inclusive of interest), of which Barclays would expect to attribute an amount of approximately £128m to Barclays Bank UK PLC and £53m to Barclays Bank PLC. Barclays has appealed HMRC's decision to the First Tier Tribunal (Tax Chamber).

Claimed amounts/Financial impact
The total amount of the HMRC assessments is approximately £181m, inclusive of interest.

Local authority civil actions concerning LIBOR
Following settlement by Barclays Bank PLC of various governmental investigations concerning certain benchmark interest rate submissions, in the UK, certain local authorities have brought claims against Barclays asserting that they entered into loans in reliance on misrepresentations made by Barclays in respect of its conduct in relation to LIBOR.

Claimed amounts/Financial impact
It is not currently practicable to provide an estimate of any further financial impact of the actions described on Barclays or what effect they might have upon Barclays' operating results, cash flows or financial position in any particular period.

CCUK Finance Limited and CIAC Corporation
In May 2017, Barclays was served with a civil claim by CCUK Finance Limited and CIAC Corporation issued in the English High Court alleging breach of a contractual indemnity, fraudulent misrepresentation and breach of warranty arising out of the sale of a portfolio of credit cards in 2007. The parties have settled the claim.

Claimed amounts/Financial impact
The financial impact of the action described was not material to Barclays' operating results, cash flows or financial position.

General
Barclays Bank UK PLC and its subsidiaries are engaged in various other legal, competition and regulatory matters in the jurisdictions in which they operate. The Barclays Bank UK Group is subject to legal proceedings brought by and against Barclays 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 management and protection, money laundering, financial crime, employment, environmental and other statutory and common law issues.

The Barclays Bank UK 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 Barclays is or has been engaged. Barclays is cooperating with the relevant authorities and keeping all relevant agencies briefed as appropriate in relation to these matters and others described in this note on an ongoing basis.

At the present time, Barclays Bank UK PLC does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters (including formerly active matters or those matters arising after the date of this note) will not be material to Barclays Bank UK PLC's results, operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of profit otherwise reported for the reporting period

Capital instruments, equity and reserves

The notes included in this section focus on the Barclays Bank UK Group's loan capital and shareholders' equity including issued share capital, retained earnings and other equity balances. For more information on capital management and how the Barclays Bank UK Group maintains sufficient capital to meet our regulatory requirements refer to page 39.

26 Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are measured at amortised cost using the effective interest method under IFRS 9.

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Opening balance as at 1 January	-	-
Acquisition of UK banking business	3,001	3,001
Other	4,547	4,547
Total subordinated liabilities	**7,548**	**7,548**

Subordinated liabilities include £3,001m of instruments which were transferred from Barclays Bank PLC as part of the acquisition of UK banking business. Other movements are largely driven by an increase of £4,328m due to a change in the level of subordination of certain loans made to Barclays Bank UK PLC by Barclays PLC, which were previously reported as debt securities in issue. This was part of amendments made to the loans to meet internal minimum requirements for own funds and eligible liabilities (MREL) criteria to ensure they will qualify as internal MREL resources under MREL requirements applying in 2019.

Subordinated liabilities include accrued interest and none of the subordinated liabilities are secured.

			Barclays Bank UK Group	Barclays Bank UK PLC
			2018	2018
	Initial call date	Maturity date	£m	£m
Barclays Bank UK PLC notes issued intra-group to Barclays PLC				
2.625% Fixed Rate Subordinated Callable Notes (EUR 1,250m)	2020	2025	1,129	1,129
4.375% Fixed Rate Subordinated Notes (USD 1,250m)		2024	985	985
5.20% Fixed Rate Subordinated Notes (USD 683m)		2026	500	500
4.836% Fixed Rate Subordinated Callable Notes (USD 800m)	2027	2028	607	607
Barclays Bank UK PLC intra-group loans from Barclays PLC				
3.20% Fixed Rate Subordinated Loan (USD 1,350m)		2021	1,026	1,026
3.65% Fixed Rate Subordinated Loan (USD 1,100m)		2025	846	846
Various Fixed and Floating Rate Subordinated Loans			2,455	2,455
Total subordinated liabilities			**7,548**	**7,548**

Subordinated Liabilities

Subordinated liabilities are issued by Barclays Bank UK PLC for the development and expansion of the business and to strengthen the capital base. The principal terms of these liabilities are described below:

Currency and Maturity

In addition to the individual subordinated liabilities listed in the table, the £2,455m balance of intra-group loans is made up of various fixed and floating rate loans from Barclays PLC with notional amounts denominated in USD (2,027m) and EUR (1,000m), with maturities ranging from 2021 to 2041. Certain intra-group loans have a call date one year prior to their maturity.

Subordination

All subordinated liabilities are issued intra-group to Barclays PLC. Both the subordinated notes and the subordinated loans rank behind the claims of depositors and other unsecured unsubordinated creditors but before the claims of the holders of their equity. However, the subordinated notes rank behind the subordinated loans.

Interest

Interest on the floating rate loans is set by reference to market rates at the time of issuance and is fixed periodically in advance, based on the related interbank rate.

Interest on fixed rate notes and loans is set by reference to market rates at the time of issuance and fixed until maturity.

Interest on fixed rate callable notes and loans is set by reference to market rates at the time of issuance and fixed until the call date. After the call date, in the event that they are not redeemed, the interest rate will be re-set. The interest rate will re-set to either a fixed rate until maturity based on a market rate or will re-set on a floating basis which fixes periodically in advance, based on the related interbank rates, until maturity.

Repayment

Those notes and loans with a call date are repayable at the option of the Issuer, on conditions governing the respective liabilities, some in whole or in part, and some only in whole. The remaining instruments outstanding at 31 December 2018 are 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.

In certain cases, any repayments prior to maturity may require the prior approval of the PRA.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

27 Ordinary shares, share premium, and other equity

Called up share capital, allotted and fully paid	Number of shares	Ordinary share capital	Ordinary share premium	Total share capital and share premium	Other equity instruments
	m	£m	£m	£m	£m
As at 1 January 2018	**505**	**5**	**-**	**5**	**-**
Issue of new ordinary shares	**-**	**-**	**13,044**	**13,044**	**-**
Net equity impact of Barclays Bank UK PLC transfer	**-**	**-**	**-**	**-**	**2,070**
Capital reorganisation	**-**	**-**	**(13,044)**	**(13,044)**	**-**
As at 31 December 2018	**505**	**5**	**-**	**5**	**2,070**
As at 1 January 2017	5	-	-	-	-
Issue of new ordinary shares	500	5	-	5	-
As at 31 December 2017	505	5	-	5	-

Ordinary shares

The issued ordinary share capital of Barclays Bank UK PLC, as at 31 December 2018, comprised 505m (2017: 505m) ordinary shares of £0.01 each. The increase of £13,044m in share premium is due to the issuance of 3 ordinary shares to enable the transfer of the assets and liabilities of the UK banking business from Barclays Bank PLC to Barclays Bank UK PLC, as well as the transfer of liquidity.

Capital reorganisation

On 11 September 2018, the High Court of Justice in England and Wales confirmed the cancellation of the share premium account of Barclays Bank UK PLC, with the balance of £13,044m credited to retained earnings.

Other equity instruments

Other equity instruments of £2,070m includes Additional Tier 1 (AT1) securities issued by Barclays PLC, which were transferred from Barclays Bank PLC to Barclays Bank UK PLC.

The AT1 securities are perpetual securities with no fixed maturity and are structured to qualify as AT1 instruments under CRD IV.

	Initial call date	2018 £m
AT1 equity instruments - Barclays Bank UK PLC		
7.0% Perpetual Subordinated Contingent Convertible Securities	2019	**698**
7.25% Perpetual Subordinated Contingent Convertible Securities	2023	**750**
5.875% Perpetual Subordinated Contingent Convertible Securities	2024	**622**
Total AT1 equity instruments		**2,070**

28 Reserves

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.

Fair value through other comprehensive income reserve

The fair value through other comprehensive income reserve represents the changes in the fair value of fair value through other comprehensive income investments since initial recognition

Other reserves and other shareholders' equity

Other reserves and other shareholders' equity relate to the merger reserve for Barclays Bank UK Group and the Group Reconstruction Relief for Barclays Bank UK PLC, in respect of the transfer of the UK banking business.

	Barclays Bank UK Group		Barclays Bank UK PLC	
	2018	2017	2018	2017
	£m	£m	£m	£m
Fair value through other comprehensive income reserve	(33)	-	(33)	-
Cash flow hedging reserve	20	-	20	-
Other reserves and other shareholders' equity	89	20	191	121
Total	76	20	178	121

Notes to the financial statements
Employee benefits

The notes included in this section focus on the costs and commitments associated with employing our staff.

29 Staff costs

Accounting for staff costs

The Barclays Bank UK Group applies IAS 19 *Employee benefits* in its accounting for most of the components of staff costs.

Short-term employee benefits – salaries, accrued performance costs and social security 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 Barclays Bank UK 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 and share awards are made to employees to incentivise performance over the period employees provide services. To receive payment under an award, employees must provide service over the vesting period. The period over which the expense for deferred cash and share awards is recognised is based upon the period employees consider their services contribute to the awards. For past awards, the Barclays Bank UK 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. In relation to awards granted in 2018, the Barclays Bank UK Group, taking into account the changing employee understanding surrounding those awards, considered it appropriate for expense to be recognised over four years including the financial year prior to the grant date.

The accounting policy for share-based payments is included in Note 30.

	2018 £m
Performance costs	**164**
Salaries	**542**
Social security costs	**53**
Post-retirement benefits	**102**
Other compensation costs	**71**
Total compensation costs	**932**
Other resourcing costs	
Outsourcing	**28**
Redundancy and restructuring	**1**
Temporary staff costs	**35**
Other	**20**
Total other resourcing costs	**84**
Total staff costs	**1,016**

Pensions and post-retirement benefits

Current Barclays Bank UK PLC employees are members of either: the Afterwork Section of the UK Retirement Fund (UKRF), or the Barclays Pension Savings Plan (BPSP), unless they have chosen to opt-out of pensions voluntarily:

Afterwork Section of the UK Retirement Fund (UKRF)

Afterwork was closed to new entrants on 1 October 2012. It 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% p.a.). An 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 UK employees 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.

As permitted under the Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015, from 1 September 2017, until the end of 2025, Barclays Bank UK PLC will participate as an employer in the UKRF. Barclays Bank UK PLC will make contributions for the future service of its employees who are currently Afterwork members and, in the event of Barclays Bank PLC's insolvency during this period, Barclays Bank UK PLC would step in as principal employer of the UKRF. Barclays Bank PLC is currently the principal employer of the UKRF.

Under IAS 19, the UKRF is a defined benefit plan that share risks between entities under common control. Barclays Bank PLC accounts for the defined benefit obligation and Barclays Bank UK PLC recognizes a cost equal to its contributions to the scheme. Any contributions unpaid at the balance sheet date are included as a liability. In accordance with accounting standards, Barclays Bank UK PLC does not account for any potential additional liability to the scheme at the end of the transitional phase.

The UKRF Trustee and Barclays Bank PLC have entered into an arrangement with effect from 5 July 2017, whereby a collateral pool has been put in place to provide security for 100% of the UKRF funding deficit as it increases or decreases over time, and associated deficit recovery contributions, with a cap of £9.0bn. The collateral pool is currently made up of government securities. The arrangement provides the UKRF Trustee with dedicated access to the pool of assets in the event of Barclays Bank PLC not paying a deficit reduction contribution to the UKRF or in the event of Barclays Bank PLC's insolvency.

Barclays Pension Savings Plan (BPSP)
From 1 October 2012, a new UK pension scheme, the BPSP, was established to satisfy Auto Enrolment legislation. The BPSP is a defined contribution scheme (Group Personal Pension) providing benefits for all new UK hires from 1 October 2012, and also all UK employees who were not members of a pension scheme at that date. Members' benefits reflect contributions paid and the level of investment returns achieved.

30 Share-based payments

Accounting for share-based payments
The Barclays 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. 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 charge for the year arising from share based payment schemes was as follows:

	Charge for the year	
	2018	2017
	£m	£m
Share Value Plan	1	-
Deferred Share Value Plan	4	-
Others	14	-
Total equity settled	19	-
Cash settled	-	-
Total share based payments	19	-

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, five or seven years. 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. All awards are subject to potential forfeiture in certain leaver scenarios.

Deferred Share Value Plan (DSVP)

The DSVP was introduced in February 2017. The terms of the DSVP are materially the same as the terms of the SVP as described above, save that Executive Directors are not eligible to participate in the DSVP and the DSVP operates over market purchase shares only. The accounting policies for employee benefits are included in Note 9 Operating expenses.

Other schemes

In addition to the SVP and DSVP, the Barclays Group operates a number of other schemes settled in Barclays PLC Shares including Sharesave (both UK and Ireland), Sharepurchase (both UK and overseas), and the Barclays Group Long Term Incentive Plan. A delivery of upfront shares to 'Material Risk Takers' can be made as Share Incentive Award.

Share option and award plans

The weighted average fair value per award granted, weighted average share price at the date of exercise/release of shares during the year, weighted average contractual remaining life and number of options and awards outstanding (including those exercisable) at the balance sheet date are as follows:

	2018				2017			
	Weighted average fair value per award granted in year	Weighted average share price at exercise/ release during year	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)	Weighted average fair value per award granted in year	Weighted average share price at exercise/ release during year	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)
	£	£			£	£		
SVP[a,b]	-	2.11	<1	1,121	-	-	-	-
DSVP[a,b]	1.87	2.00	1	6,172	-	-	-	-
Others[a]	0.35-2.11	1.82-2.11	0-3	92,314	-	-	-	-

SVP and DSVP are nil cost awards on which the performance conditions are substantially completed at the date of grant. Consequently, the fair value of these awards 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]		DSVP[a,b]		Others[a,c]			
	Number (000s)		Number (000s)		Number (000s)		Weighted average ex. price (£)	
	2018	2017	2018	2017	2018	2017	2018	2017
Outstanding at beginning of year/acquisition date	3,097	-	3,093	-	89,631	-	1.42	-
Granted in the year	-	-	4,248	-	22,601	-	1.51	-
Exercised/released in the year	(1,886)	-	(953)	-	(8,257)	-	1.51	-
Less: forfeited in the year	(90)	-	(216)	-	(10,731)	-	1.30	-
Less: expired in the year	-	-	-	-	(930)	-	1.81	-
Outstanding at end of year	1,121	-	6,172	-	92,314	-	1.41	-
Of which exercisable:	-	-	-	-	10,482	-	1.96	-

Notes
a Options/award granted over Barclays PLC shares.
b Nil cost award and therefore the weighted average exercise price was nil.
c 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 (3,542,292). The weighted average exercise price relates to Sharesave.

Certain of the Barclays Bank UK Group's share option plans enable certain directors and employees to subscribe for new ordinary shares of Barclays PLC.

There were no significant modifications to the share based payments arrangements in 2018 and 2017.

As at 31 December 2018, the total liability arising from cash-settled share based payments transactions was nil (2017: nil).

Scope of consolidation

The section presents information on the Barclays Bank UK Group's interests in structured entities. Detail is also given on securitisation transactions the Barclays Bank UK Group has entered into and arrangements that are held off-balance sheet.

31 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 Barclays Bank UK 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 Barclays Bank UK Group has contractual arrangements which may require it to provide financial support to the following types of consolidated structured entities:

Securitisation vehicles

The Barclays Bank UK Group uses securitisation as a source of financing and a means of risk transfer. Refer to Note 32 for further detail.

Employee benefit and other trusts

Barclays Bank UK PLC provides capital contributions to employee benefit trusts to enable them to meet obligations to the employees of Barclays Bank UK PLC in relation to the Barclays Group's share-based remuneration arrangements.

Unconsolidated structured entities in which the Barclays Bank UK Group has an interest

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 Barclays Bank UK Group. Such interests include lending, loan commitments, financial guarantees and investment management agreements.

The Barclays Bank UK Group's interests in structured entities are set out below, summarised by the purpose of the entities and limited to significant categories, based on maximum exposure to loss.

Summary of interests in unconsolidated structured entities

As at 31 December 2018	Lending £m	Investment funds and trusts £m	Other £m	Total £m
Barclays Bank UK Group				
Loans and advances at amortised cost	871	-	1,451	2,322
Other assets	-	21	-	21
Total on-balance sheet exposures	**871**	**21**	**1,451**	**2,343**
Total off-balance sheet notional amounts	155	-	-	155
Maximum exposure to loss	**1,026**	**21**	**1,451**	**2,498**
Total assets of the entity	**9,689**	**8,886**	**11,114**	**29,689**

Maximum exposure to loss

Unless specified otherwise below, the Barclays Bank UK 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.

Lending

The portfolio includes lending provided by the Barclays Bank UK Group to unconsolidated structured entities in the normal course of its lending business to earn income in the form of interest and lending fees and includes loans to structured entities that are generally collateralised by property, equipment or other assets. All loans are subject to the Barclays Bank UK Group's credit sanctioning process. Collateral arrangements are specific to the circumstances of each loan with additional guarantees and collateral sought from the sponsor of the structured entity for certain arrangements. During the period the Barclays Bank UK Group incurred an immaterial impairment against such facilities.

Investment funds and trusts

In the course of its fund management activities, the Barclays Bank UK Group establishes pooled investment funds that comprise investments of various kinds, tailored to meet certain investors' requirements. The Barclays Bank UK Group's interest in funds is generally restricted to a fund management fee, the value of which is typically based on the performance of the fund.

The Barclays Bank UK 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 Barclays Bank UK 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. Barclays Bank UK PLC has no other risk exposure to the trusts.

Other

This includes interests in debt securities issued by securitisation vehicles.

Assets transferred to sponsored unconsolidated structured entities
No assets were transferred to sponsored unconsolidated structured entities.

32 Securitisations

Accounting for securitisations
The Barclays Bank UK 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 Barclays Bank UK 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 Barclays Bank UK 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 Barclays Bank UK Group makes transfers of financial assets, either where legal rights to the cash flows from the asset are passed to the counterparty or beneficially, where the Barclays Bank UK 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 derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

A summary of the main transactions, and 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 Barclays Bank UK Group was party to securitisation transactions involving its credit card balances.

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 Barclays Bank UK 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.

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:

	2018			
	Assets		Liabilities	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Barclays Bank UK Group				
Loans and advances at amortised cost				
Credit cards, unsecured and other retail lending	1,200	1,240	(1,259)	(1,256)
Barclays Bank UK PLC				
Loans and advances at amortised cost				
Credit cards, unsecured and other retail lending	1,200	1,240	(1,259)	(1,256)

Balances included within loans and advances at amortised cost represent securitisations where substantially all the risks and rewards of the asset have been retained by Barclays Bank UK 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.

For transfers of assets in relation to repurchase agreements, see Note 33.

33 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:

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Cash collateral	2,339	2,339
Loans and advances at amortised cost	30,377	30,377
Financial assets at fair value through other comprehensive income	1,775	1,775
Assets pledged	34,491	34,491

Barclays Bank UK Group has an additional £6bn of loans and advances within its asset backed funding programmes that can readily be used to raise additional secured funding and are available to support future issuances.

Collateral held as security for assets

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, Barclays Bank UK 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:

	Barclays Bank UK Group	Barclays Bank UK PLC
	2018	2018
	£m	£m
Fair value of securities accepted as collateral	2,367	2,367
Of which fair value of securities re-pledged/transferred to others	1,898	1,898

Additional disclosure has been included in collateral and other credit enhancements (page 50).

Notes to the financial statements

Other disclosure matters

The notes included in this section focus on related party transactions, Auditors' remuneration and Directors' remuneration. Related parties include any subsidiaries, associates, joint ventures and Key Management Personnel.

34 Related party transactions and Directors' remuneration

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 operational decisions, or one other party controls both.

The acquisition of the UK banking business from Barclays Bank PLC has materially affected the financial position and the performance of the Barclays Bank UK Group during this period with regards to its related party transactions. Refer to Note 2 for details of the business acquisition, including intra-group balances.

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 UK PLC.

Subsidiaries

Transactions between Barclays Bank UK PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Barclays Bank UK Group's financial statements.

Fellow subsidiaries

Transactions between the Barclays Bank UK Group and other subsidiaries of the parent company also meet the definition of related party transactions.

Associates, joint ventures and other entities

There were no material related party transactions with associates, joint ventures or pension funds during the year.

Amounts included in the Barclays Bank UK Group's financial statements, in aggregate, by category of related party entity are as follows:

	Parent £m	Fellow subsidiaries £m
For the year ended and as at 31 December 2018		
Total income	**(185)**	**(45)**
Credit impairment and other provisions	**-**	**-**
Operating expenses	**(69)**	**(1,688)**
Total assets	**5**	**1,612**
Total liabilities	**7,723**	**1,304**
For the year ended and as at 31 December 2017		
Operating expenses	(26)	-
Total assets	198	-
Total liabilities	8	-

Amounts included in Barclays Bank UK PLC's financial statements, in aggregate, by category of related party entity are as follows:

	Parent £m	Subsidiaries £m	Fellow subsidiaries £m
As at 31 December 2018			
Total assets	**5**	**1,023**	**1,612**
Total liabilities	**7,723**	**1,568**	**1,293**
As at 31 December 2017			
Total assets	198	-	-
Total liabilities	8	-	-

It is the normal practice of Barclays Bank UK PLC 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
Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank UK PLC (directly or indirectly) and comprise the Directors and Officers of Barclays Bank UK PLC, certain direct reports of the Chief Executive Officer and the heads of major business units and functions.

There were no material related party transactions with entities under common directorship where a member of Key Management Personnel (or any connected person) is also a member of Key Management Personnel (or any connected person) of Barclays Bank UK PLC.

The Barclays Bank UK Group provides banking services to Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding were as follows:

Loans outstanding

	2018 £m
As at 1 January	-
Loans issued during the year[a]	7.0
Loan repayments during the year[b]	(3.1)
As at 31 December	3.9

Notes
a Includes loans issued to existing Key Management Personnel and new or existing loans issued to newly appointed Key Management Personnel.
b Includes loan repayments by existing Key Management Personnel and loans to former Key Management Personnel.

No allowances for impairment were recognised in respect of loans to Key Management Personnel (or any connected person).

Deposits outstanding

	2018 £m
As at 1 January	-
Deposits received during the year[a]	17.7
Deposits repaid during the year[b]	(14.4)
As at 31 December	3.3

Notes
a Includes deposits received from existing Key Management Personnel and new or existing deposits received from newly appointed Key Management Personnel.
b Includes deposits repaid by existing Key Management Personnel and deposits of former Key Management Personnel.

Total commitments outstanding
Total commitments outstanding refer to the total of any undrawn amounts on credit card and/or overdraft facilities provided to Key Management Personnel. Total commitments outstanding as at 31 December 2018 were £0.3m.

All loans to 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.

Remuneration of Key Management Personnel
Total remuneration awarded to 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. 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 Key Management Personnel.

	2018 £m
Salaries and other short-term benefits	16.8
Pension costs	0.2
Other long-term benefits	2.7
Share-based payments	3.0
Employer social security charges on emoluments	3.0
Costs recognised for accounting purposes	25.7
Employer social security charges on emoluments	(3.0)
Other long-term benefits – difference between awards granted and costs recognised	0.8
Share-based payments – difference between awards granted and costs recognised	0.5
Total remuneration awarded	24.0

Disclosure required by the Companies Act 2006
The following information regarding the Barclays Bank UK PLC Board of Directors is presented in accordance with the Companies Act 2006:

	2018 £m
Aggregate emoluments[a]	**4.6**

Note
a The aggregate emoluments include amounts paid for the 2018 year. In addition, deferred cash and share awards for 2018 with a total value at grant of £2.7m will be made to Directors which will only vest subject to meeting certain conditions.

Pension contributions totalling £5,295 were paid to defined contribution schemes on behalf of Directors (2017: £nil). There were no notional pension contributions to defined contribution schemes.

As at 31 December 2018, there were no Directors accruing benefits under a defined benefit scheme (2017: nil).

Of the figures in the table above, the amounts attributable to the highest paid Director are as follows:

	2018 £m
Aggregate emoluments[a]	**2.6**

Note
a The aggregate emoluments include amounts paid for the 2018 year. In addition, deferred cash and share awards for 2018 with a total value at grant of £2.4m will be made to highest paid Director which will only vest subject to meeting certain conditions.

Pension contributions totalling £5,295 were paid to defined contribution schemes (2017: £nil). There were no notional pension contributions to defined contribution schemes.

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 2018 to persons who served as Directors during the year was £0.1m (2017: £nil). The total value of guarantees entered into on behalf of Directors during 2018 was £nil (2017: £nil).

35 Auditors' remuneration
Auditors' remuneration is included within consultancy, legal and professional fees in administration and general expenses and comprises:

	2018 £m
Audit of the Barclays Bank UK Group's annual accounts	**7**
Other services:	
Audit of the Company's subsidiaries[a]	**1**
Other audit related fees[b]	**2**
Total Auditors' remuneration	**10**

Notes
a Comprises the fees for the statutory audit of the subsidiaries and fees for the work performed by associates of KPMG in respect of the consolidated financial statements of the Company.
b Comprises services in relation to statutory and regulatory filings. These include services for the review of the interim financial information under the Listing Rules of the UK listing authority.

36 Related undertakings

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries, joint ventures, associates and significant other interests. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below. The information is provided as at 31 December 2018.

Wholly owned subsidiaries

Unless otherwise stated the undertakings below are wholly owned and consolidated by Barclays and the share capital disclosed comprises ordinary and/or common shares, 100% of the nominal value of which is held by Group subsidiaries.

Notes

A. Directly held by Barclays Bank UK PLC
B. Partnership Interest
C. A Ordinary Shares

Wholly owned subsidiaries	Note
United Kingdom	
- 1 Churchill Place, London, E14 5HP	
Barclays Asset Management Limited	A
Barclays Direct Investing Nominees Limited	
Barclays Financial Planning Nominee Limited	
Barclays Global Shareplans Nominee Limited	
Barclays Insurance Services Company Limited	A
Barclays Investment Solutions Limited	A
Barclays SAMS Limited	A
Barclays Singapore Global Shareplans Nominee Limited	
Barclayshare Nominees Limited	A
FIRSTPLUS Financial Group Limited	A
Solution Personal Finance Limited	A
Woolwich Homes Limited	A
- Aurora Building, 120 Bothwell Street, Glasgow, G2 7JS	
R.C. Grieg Nominees Limited	

Other Related Undertakings

Unless otherwise stated, the undertakings below are consolidated and the share capital disclosed comprises ordinary and/or common shares which are held by subsidiaries of the Group. The Group's overall ownership percentage is provided for each undertaking.

Other Related Undertakings	Percentage	Note
United Kingdom		
- 1 Churchill Place, London, E14 5HP		
Barclaycard Funding PLC	75.00%	C
Barclays Covered Bond Funding LLP	50.00%	B

Joint Ventures

The related undertakings below are Joint Ventures in accordance with s. 18, Schedule 4, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and are proportionally consolidated.

Joint Ventures	Percentage	Note
United Kingdom		
- All Saints Triangle, Caledonian Road, London, N1 9UT		
Vaultex UK Limited	50.00%	A

Joint management factors

The Joint Venture Board comprises two Barclays representative directors, two JV partner directors and three non-JV partner directors. The Board are responsible for setting the company strategy and budgets.

Notes

The term Barclays Bank UK Group refers to Barclays Bank UK PLC together with its subsidiaries. Unless otherwise stated, the income statement analysis compares the year ended 31 December 2018 to the corresponding twelve months of 2017 and balance sheet analysis as at 31 December 2018 with comparatives relating to 31 December 2017. The abbreviations '£m' and '£bn' represent millions and thousands of millions of Pounds Sterling respectively.

There are a number of key judgement areas, for example impairment calculations, which are based on models and which are subject to ongoing adjustment and modifications. Reported numbers reflect best estimates and judgements at the given point in time.

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 results glossary that can be accessed at home.barclays/results.

The information in this announcement, which was approved by the Board of Directors on 20 February 2019, does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018, which contain an unqualified audit report under Section 495 of the Companies Act 2006 (which does not make any statements under Section 498 of the Companies Act 2006) will be delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

Barclays Bank UK Group is an issuer in the debt capital markets. Barclays Bank UK Group expects that from time to time over the coming year it will meet with investors via formal road shows and other ad hoc meetings to discuss these results and other matters relating to the Barclays Bank UK Group.

Forward-looking statements

Barclays Bank UK PLC cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures 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 or guidance regarding or relating to the Barclays Bank UK Group's future financial position, income growth, assets, impairment charges, provisions, business strategy, capital, leverage and other regulatory ratios, projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets, estimates of capital expenditures, 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, 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 applicable to past, current and future periods; macroeconomic and business conditions in the United Kingdom and in any systemically important economy which impacts the United Kingdom; the effects of any 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 any entities within the Barclays Bank UK Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implications of the exercise by the United Kingdom of Article 50 of the Treaty of Lisbon and the disruption that may result in the United Kingdom from the withdrawal of the United Kingdom from the European Union; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Barclays Bank UK Group's control. As a result, the Barclays Bank UK Group's actual future results and capital and leverage ratios may differ materially from the plans, goals, expectations and guidance set forth in the Barclays Bank UK Group's forward-looking statements.

Subject to our obligations under any applicable laws and regulations in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.