

[\(iii\) Individual outcomes](#)

The Committee and Board agreed that Antony Jenkins had performed strongly in his first full year as Chief Executive while recognising that pre-tax profits had fallen in the period. However, on 3 February 2014 Antony Jenkins announced that he would decline any 2013 bonus offered to him by the Committee, citing the Rights Issue, restructuring costs and costs associated with legacy issues as his reasons.

60% of Tushar Morzaria's 2013 bonus of £1.2m will be deferred through a Share Value Plan award vesting over three years. 20% will be paid in cash and 20% in shares. All shares are subject to a six month holding period from the point of release. The bonus reflects both Tushar's performance at Barclays and his forfeited bonus opportunity when he left his previous employer to join Barclays.

The Committee decided to award Chris Lucas a 2013 bonus at a level of 40% of the maximum (the maximum being 250% of salary), pro rating the resulting amount to reflect his service during 2013. The resulting award of £500,000 will be 100% deferred through a Share Value Plan award vesting over three years, each annual release of shares being subject to an additional six month holding period.

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LTIP

The LTIP amount included in the 2013 single total figure of remuneration is the value of vesting amounts in 2013 in relation to the LTIP award granted in 2011 in respect of the financial years 2011-2013. Chris Lucas was the only executive Director participant in this cycle. Accordingly, as Antony Jenkins and Tushar Morzaria were not participants in this cycle, the LTIP figure in the single figure table is shown as zero for both of them. Vesting was dependent on the performance period ending in 2013. The performance achieved against the performance targets is shown below.

Performance measure	Weighting	Threshold	Maximum 100% vesting	Actual	% of maximum achieved
Return on Risk Weighted Assets (RoRWA)	60%	23% of award vests for average annual RoRWA of 1.0%	Average annual RoRWA of 1.5%	0.4%	0%
Loan loss rate	30%	10% of award vests for average annual loan loss rate of 95 bps	Average annual loan loss rate of 81 bps or below	71 bps	30%
Sustainability metrics	10%	Performance against the sustainability metrics is assessed by the Committee to determine the % of the award that may vest between 0% and 10%		0%	0%

The award was also subject to a discretionary underpin by which the Committee must be satisfied with the underlying financial health of the Group. The Committee was satisfied that this underpin was met, and accordingly determined that the award should vest to the extent of 30% of the maximum number of shares under the total award. The shares are scheduled to be released in March 2014.

Chairman and non-executive Directors

Remuneration for non-executive Directors reflects their responsibility and time commitment and the level of fees paid to non-executive directors of comparable major UK companies.

Chairman and non-executive Directors: Single total figure for 2013 fees (audited)

	Fees		Benefits		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Chairman						
Sir David Walker ^a	750	167	17	6	767	173
Non-executive Directors						
Michael Ashley ^b	39	—	—	—	39	—
David Booth ^c	185	170	—	—	185	170
Tim Breedon ^d	183	18	—	—	183	18
Fulvio Conti	110	110	—	—	110	110
Simon Fraser	140	140	—	—	140	140
Reuben Jeffery III	124	105	—	—	124	105
Sir Andrew Likierman ^e	45	135	—	—	45	135
Wendy Lucas-Bull ^f	25	—	—	—	25	—
Dambisa Moyo	129	120	—	—	129	120
Frits van Paasschen ^g	33	—	—	—	33	—
Sir Michael Rake	220	220	—	—	220	220
Diane de Saint Victor ^h	90	—	—	—	90	—
Sir John Sunderland	189	161	—	—	189	161
Alison Carnwath ⁱ	—	114	—	—	—	114
Marcus Agius ^j	—	750	—	1	—	751
Total	2,262	2,210	17	7	2,279	2,217

Notes

a Sir David Walker joined the Board as a non-executive Director with effect from 1 September 2012 and as Chairman from 1 November 2012.

b Michael Ashley joined the Board as a non-executive Director with effect from 18 September 2013.

c David Booth retired from the Board as a non-executive Director with effect from 31 December 2013.

- d Tim Breedon joined the Board as a non-executive Director with effect from 1 November 2012.
- e Sir Andrew Likierman retired from the Board as a non-executive Director with effect from 25 April 2013.
- f Wendy Lucas-Bull joined the Board as a non-executive Director with effect from 19 September 2013.
- g Frits van Paasschen joined the Board as a non-executive Director with effect from 1 August 2013.
- h Diane de Saint Victor joined the Board as a non-executive Director with effect from 1 March 2013.
- i Alison Carnwath resigned from the Board as a non-executive Director with effect from 24 July 2012.
- j Marcus Agius stepped down as Chairman and as a non-executive Director on 2 July 2012.

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Long Term Incentive Plan

The BIS Regulations only require inclusion in the 'Single total figure of remuneration' the value of the LTIP awards whose last year of performance ends in the relevant financial year and whose vesting outcome is known. This section sets out LTIP cycles in which the executive Directors participate, the outcome of which remains dependent on future performance and whose value could be between nil and the full amount.

LTIP awards for 2013 performance year

The Committee decided to make awards under the 2014-2016 LTIP cycle to both Antony Jenkins and Tushar Morzaria with a face value at grant of 400% of their respective salaries at 31 December 2013. The 2014-2016 LTIP awards will be subject to the following performance measures.

Performance measure	Weighting	Threshold	Maximum vesting
Return on Risk Weighted Assets (RoRWA)	50%	23% of award vests for average annual RoRWA of 1.08%	Average annual RoRWA of 1.52%
Loan loss rate	20%	7% of award vests for average annual loan loss rate of 70 bps	Average annual loan loss rate of 55 bps
Balanced Scorecard	30%	Performance against the Balanced Scorecard is assessed by the Committee to determine the % of the award that may vest between 0% and 30%. Each of the 5Cs in the Balanced Scorecard will have equal weighting. The targets within each of the 5Cs are deemed to be commercially sensitive. However retrospective disclosure of the targets and performance against them will be disclosed in the 2016 Remuneration Report subject to commercial sensitivity no longer remaining.	

Straight line vesting applies between the threshold and maximum points in respect of the RoRWA and Loan loss rate measures respectively. If the Committee is satisfied with the underlying financial health of the Group based on profit before tax, depending on the extent of its satisfaction, the percentage of shares that may be considered for release by the Committee under the RoRWA measure can be increased or decreased by 10% of the total award, subject always to a maximum of 50% for the award calibrated against RoRWA.

Outstanding LTIP awards

(i) LTIP awards granted during 2012

The performance measures for the awards made under the 2012-2014 LTIP cycle are shown below.

Performance measure	Weighting	Threshold	Maximum vesting
Return on Risk Weighted Assets ('RoRWA')	60%	23% of award vests for average annual RoRWA of 1.1%	Average annual RoRWA of 1.6%
Loan loss rate	30%	10% of award vests for average annual loan loss rate of 93 bps	Average annual loan loss rate of 70 bps or below
Citizenship metrics	10%	Performance against the Barclays Citizenship strategy is assessed by the Committee to determine the percentage of the award that may vest between 0% and 10%	

Straight line vesting applies between the threshold and maximum points in respect of the RoRWA and Loan loss rate measures respectively. Following the determination of the RoRWA vesting percentage, if the Committee is satisfied with the underlying financial health of the Group based on cumulative profit before tax excluding own credit, it may at its discretion, adjust the percentage of award by up to five vesting points (subject to the maximum of 60% for the award calibrated against RoRWA). Actual performance to be determined on the scheduled release date in May 2015.

[\(ii\) LTIP awards granted during 2013](#)

Awards were made in March 2013 under the 2013-2015 LTIP cycle in accordance with our remuneration policy to the executive Directors.

	% of salary	Number of shares	Face value at grant	Performance period
Antony Jenkins ^a	400%	1,545,995	£4,400,000	2013-2015
Chris Lucas ^b	400%	1,124,360	£3,200,000	

Notes

a The maximum number of shares awarded to Antony Jenkins includes 117,888 shares as a Rights Issue adjustment. The original number of shares granted on 18 March 2013 was 1,428,107 at £3.08 per share.

b The maximum number of shares awarded to Chirs Lucas includes 85,737 shares as a Rights Issue adjustment. The original number of shares granted on 18 March 2013 was 1,038,623 shares at £3.08 per share.

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The performance measures for the 2013-2015 LTIP awards are as follows:

Performance measure	Weighting	Threshold	Maximum vesting
Return on Risk Weighted Assets (RoRWA)	50%	13% of award vests for average annual RoRWA of 1.1%	Average annual RoRWA of 1.6%
Loan loss rate	30%	10% of award vests for average annual loan loss rate of 75 bps	Average annual loan loss rate of 60 bps or below
Balanced Scorecard	20%	Performance against the Balanced Scorecard is assessed by the Committee to determine the percentage of the award that may vest between 0% and 20%. Each of the 5Cs in the Balanced Scorecard has equal weighting. The targets within each of the 5Cs are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be disclosed in the 2015 Remuneration Report subject to commercial sensitivity no longer remaining.	

Straight line vesting applies between the threshold and maximum points in respect of the RoRWA and Loan loss rate measures respectively. If the Committee is satisfied with the underlying financial health of the Group based on profit before tax, depending on the extent of its satisfaction, the percentage of Barclays shares that may be considered for release by the Committee under the RoRWA measure can be increased or decreased by 10% of the total award, subject always to a maximum of 50% of the award. Actual performance to be determined on the scheduled release date in March 2016.

Total pension entitlements

Antony Jenkins left the UK pension scheme in April 2012, and started receiving cash in lieu of pension. He has benefits in both the final salary 1964 section and in the cash balance Afterwork section. The accrued pension shown below relates to his 1964 section pension only. The other pension entries relate to his benefits in both sections.

Chris Lucas ceased to be an executive Director on 16 August 2013. The 2013 cash in lieu of pension shown below is for the period from 1 January 2013 to 16 August 2013.

Tushar Morzaria was appointed as an executive Director on 15 October 2013. The cash in lieu of pension shown below is for the period 15 October 2013 to 31 December 2013.

Executive Directors – pension (audited)

	Accrued pension at 31 December 2013 £000	Increase in value of accrued pension over year net of inflation £000	Increase in transfer value of accrued pension £000	Normal retirement date	Pension value in 2013 from DB Scheme £000	2013 cash in lieu of pension £000	Total £000
Antony Jenkins	3	1	7	11 July 2021	1	363	364
Tushar Morzaria	—	—	—	—	—	43	43
Chris Lucas	—	—	—	—	—	125	125

Payments to the former Group Chief Executive – Bob Diamond

During 2013, Bob Diamond drew a benefit under the Thrift Restoration Plan, a US retirement arrangement of which he ceased to be an active member as at 31 December 2010. The amount of the benefit that relates to Bob Diamond's service as an executive Director of Barclays was \$192,298.

Bob Diamond was tax equalised on tax above the UK tax rate where that could not be offset by a double tax treaty. On receipt of confirmation of the liability in 2013, an additional tax equalisation payment of £80,000 (above that amount disclosed in the 2012 Remuneration Report) was made in respect of accommodation for the period from 1 January 2012 to 3 July 2012. He is not entitled to tax equalisation for income in respect of any period after 3 July 2012.

Payments to the former Group Finance Director – Chris Lucas

Chris Lucas stepped down as Group Finance Director and from the Board on 16 August 2013 due to ill health.

In line with his contract of employment, Chris Lucas received contractual sick pay (100% of base salary), pension allowance and other benefits until 15 February 2014. The other benefits include private medical, life and ill health protection, Executive Income Protection Plan (EIPP), tax advice, car allowance and the use of a company vehicle and driver when required for business purposes. His contractual sick pay, pension allowance, car allowance and eligibility to payments under the Barclays Ill Health Income Plan ceased on 15 February 2014.

Under the terms of the EIPP, Chris Lucas became eligible to receive income protection payments because he was no longer able to carry out his role due to ill health.

From 16 February 2014, Chris Lucas is receiving payments under the EIPP. The EIPP payments will amount to 75% of his current base salary, being an annual payment of £600,000 per annum, and will be reviewed annually in line with inflation up to a maximum increase of 5% per annum. He will continue to be eligible for private medical insurance and life cover while he is

receiving the EIPP payments. No salary, bonuses or other allowances are payable to him during this time. He will also have access to office space and use of a chauffeur, as required, for the purposes of the handover of his duties.

The income protection payments may be made to Chris Lucas for each year in which he is unable to undertake his role due to ill health or until he reaches 65 if earlier.

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Annual report on Directors' remuneration continued

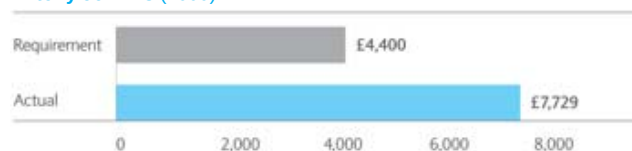
On cessation of EIPP payments, Chris Lucas is not entitled to notice or a payment in lieu of notice or any other compensation in respect of the termination of his employment.

Payments to the former Chairman – Marcus Agius

Marcus Agius was appointed as a senior adviser providing corporate advisory support to Barclays Corporate and Investment Banking with effect from 1 November 2012. He is entitled to a fee for this role at the rate of £175,000 per annum. This fee was not paid for the period of 1 November 2012 to 1 January 2013. He is also eligible for medical cover. The appointment was reviewed after 12 months to determine the value provided from the arrangement and as a result was extended until 31 March 2014 when the agreement will end.

Executive Directors' shareholdings and share interests

The chart below shows the value of Barclays' shares held beneficially by Antony Jenkins and Tushar Morzaria as at 28 February 2014 that count towards the minimum shareholding requirement of as a minimum Barclays' shares worth four times salary. Executive Directors have five years from the later of (i) 2013 and (ii) date of appointment to meet this requirement. At close of business on 28 February 2014, the market value of Barclays ordinary shares was £2.52.

Antony Jenkins (£000)

Tushar Morzaria (£000)


Tushar Morzaria joined Barclays in October 2013. He will be building up to the shareholding requirement as early as possible as his share awards vest (net of shares sold to cover any income tax and social security). In addition, his 2014 LTIP and Share Value Plan (SVP) share awards ensure alignment with shareholders.

The table below shows shares owned beneficially by all the Directors and shares over which executive Directors hold awards which are subject to either deferral terms or performance conditions. The shares shown below that are subject to performance conditions are based on the maximum number of shares that may be released.

Interests in Barclays PLC shares (audited)

		Unvested		Total as at 31 December 2013 (or date of retirement from the Board, if earlier)	Total as at 28 February 2014
	Owned outright	Subject to performance measures	Not subject to performance measures		
Executive Directors					
Antony Jenkins	3,065,675	4,056,492	2,979,158	10,101,325	10,101,325
Tushar Morzaria	10,000	–	1,089,495	1,099,495	1,099,495
Chris Lucas ^a	1,155,178	5,259,050	677,887	7,092,115	–
Chairman					
Sir David Walker	115,401	–	–	115,401	124,992
Non-Executive Directors					
Michael Ashley	11,049	–	–	11,049	13,986
David Booth ^b	122,310	–	–	122,310	–
Tim Breedon	6,679	–	–	6,679	9,737
Fulvio Conti	80,834	–	–	80,834	84,586
Simon Fraser	116,744	–	–	116,744	120,041
Reuben Jeffery III	165,822	–	–	165,822	170,370
Sir Andrew Likierman ^c	42,835	–	–	42,835	–
Wendy Lucas-Bull	2,000	–	–	2,000	4,793
Dambisa Moyo	27,814	–	–	27,814	31,112
Frits van Paasschen	2,508	–	–	2,508	6,355
Sir Michael Rake	60,556	–	–	60,556	63,960
Diane de Saint Victor	4,947	–	–	4,947	8,473
Sir John Sunderland	126,997	–	–	126,997	130,435

Stephen Thieke ^d	—	—	—	—	12,000
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Notes

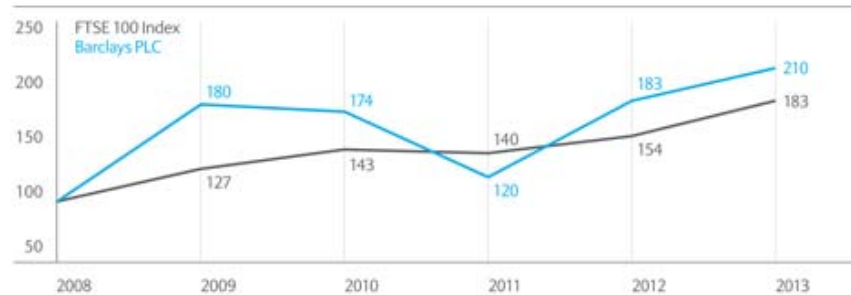
- a Chris Lucas stepped down from the Board with effect from 16 August 2013.
- b David Booth retired from the Board with effect from 31 December 2013.
- c Sir Andrew Likierman retired from the Board with effect from 25 April 2013.
- d Stephen Thieke joined the Board with effect from 7 January 2014.

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Performance graph and table

The performance graph below illustrates the performance of Barclays over the past five financial years from 2009 to 2013 in terms of total shareholder return compared with that of the companies comprising the FTSE 100 index. The index has been selected because it represents a cross-section of leading UK companies.

Total shareholder return £ Year ended 31 December



In addition, the table below provides a five-year summary of the total remuneration of the Group Chief Executive over the same period. For the purpose of calculating the value of the remuneration of the Group Chief Executive, data has been collated on a basis consistent with the 'single figure' methodology.

Year	2009	2010	2011	2012	2012	2013
Group Chief Executive	John Varley	John Varley	Bob Diamond	Bob Diamond ^a	Antony Jenkins ^b	Antony Jenkins
Group Chief Executive single figure of total remuneration £000s	2,050	4,567	11,070 ^c	1,892	529	1,602
Annual bonus against maximum opportunity %	0%	100%	80%	0%	0%	0%
Long-term incentive vesting against maximum opportunity %	50%	16%	N/A ^d	0%	N/A ^d	N/A ^d

Notes

- a Bob Diamond left the Board on 3 July 2012.
b Antony Jenkins became Group Chief Executive on 30 August 2012.
c Number in the single figure table above for 2011 is inclusive of £5,745k tax equalisation as set out in the 2011 Remuneration Report. He was tax equalised on tax above the UK rate where that could not be offset by a double tax treaty.
d Not a participant in a long-term incentive award which vested in the period.

Percentage change in Group Chief Executive's remuneration

The table below shows how the percentage change in the Group Chief Executive's salary, benefits and bonus between 2012 and 2013 compares with the percentage change in the average of each of those components of pay for United Kingdom based employees.

	Salary	Benefit	Annual bonus
Antony Jenkins ^a	No Change	No Change	No Change
Average based on UK employees	3.6% up	No Change	7.3% up

a Antony Jenkins joined the Board with effect from 30 August 2012. The year on year change has been calculated on an annualised basis.

We have chosen UK employees as the comparator group as it is the most representative group for pay structure comparisons.

Relative importance of spend on pay

A year on year comparison of the relative importance of pay and distributions to shareholders is shown below. 2013 Group compensation costs have reduced 1% and dividends to shareholders have increased 17% from 2012.

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Group compensation costs (£m)**Dividends to shareholders (£m)**barclays.com/annualreport[Barclays PLC Annual Report 2013 > 117](#)

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Annual report on Directors' remuneration continued

Statement of implementation of remuneration policy in 2014

The executive Directors' package for 2014, in line with the Directors' remuneration policy, will be implemented with effect from the 2014 AGM as follows:

	Antony Jenkins	Tushar Morzaria	Comments
Base Salary	£1,100,000	£800,000	No change from 2013.
Role Based Pay	£950,000	£750,000	Paid quarterly in shares subject to a holding period with restrictions lifting over five years.
Pension	33% of salary	25% of salary	Fixed cash allowance in lieu of participation in pension plan
Maximum bonus	80% of fixed pay	80% of fixed pay	Award subject to performance over the year and delivered in cash and/or shares, a proportion of which are deferred (at least the amount required by the PRA Remuneration Code) over three years with one-third vesting each year
Maximum LTIP	120% of fixed pay	120% of fixed pay	Delivered in shares and vesting dependent on performance over a three year period and subject to a further two year holding period after vesting

Annual bonus

The annual bonus opportunity will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity, deferral and malus provisions. The measures have been selected to reflect a range of financial and non-financial goals that support the key strategic objectives of the Company. The performance measures and weightings are shown below.

Financial (50% weighting)	- Business performance and Income generation - Cost management - Balance sheet - Leverage - Capital management - Progress on the Transform programme financial commitments will continue to be assessed in 2014.
Balanced Scorecard (35% weighting)	Progress towards the five year Balanced Scorecard targets will be assessed by the Committee at the year end. Each of the 5Cs in the Balanced Scorecard will have equal weighting. The Balanced Scorecard is set out on page 10.
Personal objectives (15% weighting)	Antony Jenkins' 2014 personal objectives include: - Delivery of the Transform commitments Personal objectives for each executive Director will be aligned to Barclays' Purpose, Values and Behaviours and to the 5Cs of the Balanced Scorecard – Customers & Clients, Colleagues, Citizenship, Conduct and Company. - Further strengthening the control environment - Continuing to embed our Purpose, Values and Behaviours and rebuilding Barclays' reputation - Continuing to strengthen the Executive Committee and Senior Leadership Group. Tushar Morzaria's 2014 personal objectives include: - Effective management of the finance, tax and treasury functions including risk and control - Management of external relationships and reputation - Increased functionalisation and improved efficiency of functions.

Detailed calibration of the targets is commercially sensitive and it is not appropriate to disclose this information externally. Disclosure of achievement against the targets will be made in the 2014 annual report subject to the sensitivity no longer remaining.

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Non-executive Director fees

The fees for the Chairman and non-executive Directors are shown below.

	1 January 2014 £000	1 January 2013 £000	Percentage increase
Chairman	750	750	0
Deputy Chairman	250	—	—
Board member	80	80	0
Additional responsibilities			
Senior Independent Director	30	30	0
Chairman of Board Audit or Board Remuneration Committee	70	70	0
Chairman of Board Financial Risk Committee	60	60	0
Membership of Board Audit or Board Remuneration Committee	30	30	0
Membership of Board Conduct, Reputation and Operational Risk Committee	25	25	0
Membership of Board Financial Risk Committee	25	25	0
Membership of Board Corporate Governance and Nominations Committee	15	15	0

The Chairman does not receive any other fees in addition to the Chairman fee.

Upon his appointment as Deputy Chairman in 2012, Sir Michael Rake opted to take his non-executive basic fee, Senior Independent Director fee and individual Committee fees. However, with changes in his Committee responsibilities, it has been agreed that with effect from 1 January 2014, Sir Michael Rake will be paid the Deputy Chairman's fee of £250,000. He does not receive any other fees.

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Annual report on Directors' remuneration continued

Barclays Board Remuneration Committee

The Board Remuneration Committee is responsible for overseeing Barclays' remuneration as described in more detail below.

Terms of Reference

The principal purposes of the Committee are to:

- Set the over-arching principles and parameters of Remuneration Policy across the Group
- Consider and approve the remuneration arrangements of the Chairman, executive Directors, other senior executives and those employees, including Code Staff, whose total remuneration exceeds an amount determined by the Committee from time to time (currently remuneration of £1m or more)
- Exercise oversight for remuneration issues.

The Committee considers and approves buy outs of forfeited rights for new hires of £1m or more, and packages on termination where the total value is £1m or more. It reviews the policy relating to all remuneration plans including pensions, and considers and approves policies to promote the alignment of the interests of shareholders and employees. It is also responsible for the selection and appointment of remuneration consultants.

The Terms of Reference are at www.group.barclays.com/about-barclays/about-us/the-board-committees or from the Company Secretary on request.

Chairman and members

The Chairman and members of the Committee are as follows:

- Sir John Sunderland, Committee member since 1 July 2005, Committee Chairman since 24 July 2012
- Sir David Walker, Committee member since 1 September 2012
- Simon Fraser, Committee member since 1 May 2009
- David Booth, Committee member from 1 July 2012 to 31 December 2013
- Tim Breedon, Committee member since 1 December 2012
- Stephen Thieke, Committee member since 6 February 2014

Sir David Walker was considered independent on appointment as Board Chairman. All other current members are considered independent by the Board.

Remuneration Committee attendance in 2013

	Number of meetings eligible to attend	Number of meetings attended
Sir John Sunderland	8	8
Sir David Walker	8	8
Simon Fraser	8	8
David Booth	8	8
Tim Breedon	8	8

The performance of the Committee is reviewed each year as part of the Board Effectiveness Review. The 2013 review concluded that the Committee continues to operate effectively. There was a marginally higher overall score in 2013 than for 2012 and the report concluded that there is good evidence that the quality of constructive debate and challenge within the Committee has improved over the last twelve months.

Advisers to the Remuneration Committee

The Committee received advice during 2013 from Towers Watson. Towers Watson were appointed by the Committee following a market review. The advice provided by Towers Watson to the Committee is independent. Towers Watson is a signatory to, and its continuing appointment as adviser to the Committee is conditional on adherence to, the voluntary UK Code of Conduct for executive remuneration consultants.

Work undertaken by Towers Watson includes advising the Committee and providing the latest market data on compensation and trends when considering incentive levels and remuneration packages. A representative from Towers Watson attends Committee meetings, when requested by the Committee. Towers Watson is available to advise and meet with the Committee members separate from management. Towers Watson also provides remuneration data to the Group and pensions advice and administration services to the Barclays Bank UK Retirement Fund. Fees are charged on a time/cost basis and Towers Watson were paid a total of £255,000 (excluding VAT) in fees for work in 2013 relating to the executive Directors, either exclusively or along with other employees within the Committee's Terms of Reference.

The Committee reviewed the objectivity and independence of the advice it receives from Towers Watson at a private meeting in July 2013. It is satisfied that Towers Watson is providing robust and professional advice.

In the course of its deliberations, the Committee considers the views of the Group Chief Executive, Group Human Resources Director and the Reward and Performance Director. The Group Finance Director and Chief Risk Officer provide regular updates on Group and business financial performance and the Group's risk profile respectively.

No Barclays' employee or Director participates in discussions or decisions of the Committee relating to his or her own remuneration. No other advisers provided significant services to the Committee in the year.

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Remuneration Committee activities in 2013

The following provides a summary of the Committee's activities during 2013 and during the February 2014 meeting when 2013 remuneration decisions were finalised.

Meeting	Fixed pay issues	Variable pay issues	Governance, risk and other matters
January 2013	Approved executive Directors' and senior executive 2013 salary	- Final 2012 incentive funding - Approved proposals for executive Director and senior executive 2012 bonuses and 2013 LTIP awards	- Risk adjustment and malus review - Review reward communications strategy - Barclays Transform project and remuneration - Finance and Risk update
February 2013	Executive Director retirement arrangements	2013 LTIP - Long-term compensation projections	- Risk adjustment and malus review - Approved 2012 remuneration report - Transform project – reward update
April 2013			Consider and approve remuneration arrangements in respect of Group Executive Committee changes
May 2013	Initial consideration of possible approaches to CRD IV compliance	- Remuneration trend analysis - Review of incentives	- CRD IV regulation - Control framework for hiring, exit and retention of employees
July 2013	Approaches to CRD IV compliance	2013 incentive projections - Barclays' balanced scorecard - Group Executive Committee remuneration - Barclays LTIP review - Review of regulation and formulaic incentives	- Review of Committee effectiveness and terms of reference - Review Committee adviser independence - CRD IV regulation - Control framework for hiring, exit and retention of employees - Finance and Risk update
September 2013	Approach to CRD IV involving new fixed pay 'Role Based Pay'	Incentive funding and total compensation expenditure	- Malus review - CRD IV regulation
October 2013	- Update on pension - CRD IV update	2013 incentive funding projections	- Annual review of appointment of external Committee adviser - Risk adjustment and malus review - Control framework for hiring, exit and retention of employees - Finance and Risk update

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December 2013	■ CRD IV update on implementation of Role Based Pay ■ Initial considerations of executive Directors' and senior executive 2014 fixed pay	■ 2013 incentive funding proposals and initial senior executive individual proposals ■ 2014 LTIP design and performance measures	■ Risk adjustment and malus review ■ Review draft forward looking Directors' remuneration policy and 2013 remuneration report ■ Review implementation of Salz review remuneration recommendations ■ Control framework for hiring, exit and retention of employees ■ Finance and Risk update
February 2014	■ Approved executive Directors' and senior executive 2014 fixed pay	■ Final 2013 incentive funding ■ Approved proposals for executive Director and senior executive 2013 bonuses and 2014 LTIP awards	■ Risk adjustment and malus review ■ Approved 2013 remuneration report ■ Review reward communications strategy ■ Finance and Risk update

Regular items: market and stakeholder updates including PRA/FCA, US Federal Reserve and other regulatory matters; LTIP performance updates; hiring and leaver updates.

Statement of voting at Annual General Meeting

At the last Annual General Meeting the voting results on the remuneration resolution 'To approve the Directors' Remuneration Report for the year ended 31st December 2012' were as follows:

- (i) the total number of votes cast in relation to the resolution was 8,220,989,069 'for' and 456,324,669 'against';
- (ii) the percentage 'for' was 94.74% and the percentage 'against' was 5.26%; and
- (iii) the number of abstentions was 114,117,315.

The disclosure in the 2014 remuneration report will include details of the binding shareholder vote on Directors' remuneration policy.

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Additional remuneration disclosures


This section contains voluntary disclosures that the Company has agreed with the UK Government that it will make about levels of remuneration for our eight most highly paid senior executive officers. It also contains additional remuneration disclosures (including voluntary disclosures) about levels of remuneration of employees in the Barclays Group and Barclays Code Staff.

2013 total remuneration of the eight highest paid senior executive officers below Board level

The table below shows remuneration for the eight highest paid senior executive officers below Board level who were Key Management Personnel in 2013.

Eight highest paid senior executive officers below Board level

	1 2013 £000	2 2013 £000	3 2013 £000	4 2013 £000	5 2013 £000	6 2013 £000	7 2013 £000	8 2013 £000
Salary	600	513	513	125	446	450	445	384
Current year cash bonus	550	450	420	440	295	0	0	243
Current year share bonus	550	450	420	440	295	0	0	243
Deferred cash bonus	825	675	630	660	442	725	726	365
Deferred share bonus	825	675	630	660	442	725	726	365
Total remuneration	3,350	2,763	2,613	2,325	1,920	1,900	1,897	1,600

Total remuneration of the employees in the Barclays Group

The table below shows the number of employees in the Barclays Group in 2012 and 2013 in bands by reference to total remuneration. Total remuneration comprises salary, bonus and the value at award of LTIP awards.

Total remuneration of the employees in the Barclays Group

Remuneration band	Number of employees	
	2013	2012
£0 to £25,000	74,600	71,581
£25,001 to £50,000	36,886	37,300
£50,001 to £100,000	23,381	22,766
£100,001 to £250,000	10,371	10,158
£250,001 to £500,000	2,507	2,440
£500,001 to £1,000,000	962	910
£1,000,001 to £2,500,000	419	373
£2,500,001 to £5,000,000	54	50
Above £5m	8	5

Barclays is a global business. Of those employees earning above £1m detailed in the table above, 57% are based in the US, 27% in the UK, and 16% in the Rest of World.

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Code Staff remuneration

Code Staff are the members of the Barclays PLC Board and Barclays' employees whose professional activities could have a material impact on the Group's risk profile. A total of 530 individuals were Code Staff in 2013 (2012: 393).

Code Staff aggregate 2013 remuneration by business £m

Investment Bank	Corporate Banking	Wealth and Investment Management	Retail Banking (UK and Europe)	Barclaycard	Barclays Africa	Group Functions
512	11	70	8	7	13	132

Code Staff aggregate 2013 remuneration by remuneration type £m

	Senior management	Other Code Staff
Salary	13	142
Current year cash bonus	3	51
Current year share bonus	3	23
Deferred cash bonus	7	251
Deferred share bonus	8	247
Total	34	714
Long-term incentive award (outcome contingent on future performance)	3	2

Value of long-term incentive awards is the value at award.

Code Staff deferred remuneration £m

	Senior management	Other Code Staff
Deferred unvested remuneration outstanding at 31 December 2012	100	1,146
Impact of changes in Code Staff population including leavers during 2012 and joiners in 2013	163	632
Deferred unvested remuneration outstanding at 1 January 2013	263	1,778
Deferred remuneration awarded in 2013	77	680
Deferred remuneration reduced in 2013 through performance adjustments	(23)	(119)
Deferred remuneration vested in 2013	(107)	(847)
Deferred unvested remuneration outstanding at 31 December 2013	210	1,492

Code Staff joining and severance payments £m

	Senior management	Other Code Staff
Total sign-on awards	0	0
Total buy-out awards	0	0
Total severance awards (18 individuals; highest individual award £3m)	0	11

'Senior management' means members of the Barclays PLC Board and senior managers as defined in the PRA Remuneration Code. Code Staff are subject to a minimum shareholding guideline.

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[Outstanding share plan and long-term incentive plan awards \(audited\)](#)

	Number of shares under award/option at 1 January 2013 (maximum)	Number of shares awarded in year (maximum)	Rights Issue Adjustment (maximum)	Market price on award date	Weighted average exercise price
Antony Jenkins					
Executive Share Award Scheme 2007	7,052	—	—	£4.14	—
Barclays LTIP 2012-2014	1,052,347	—	86,870	£1.81	—
Barclays LTIP 2012-2014	1,266,715	—	104,565	£1.86	—
Barclays LTIP 2013-2015	—	1,428,107	117,888	£3.06	—
Share Value Plan 2010	412,141	—	—	£3.55	—
Share Value Plan 2011	285,370	—	11,778	£2.88	—
Share Value Plan 2012	1,796,137	—	50,690	£2.53	—
Share Value Plan 2012	1,995,237	—	164,704	£1.86	—
Tushar Morzaria					
Share Value Plan 2013	—	1,089,495	—	£2.51	—
Chris Lucas					
PSP 2010-2012	927,318	—	—	£3.55	—
Sharesave 2007	3,735	—	308	—	£4.35
Sharesave 2012	6,250	—	515	—	£1.33
Executive Share Award Scheme 2007	44,006	—	—	£4.14	—
Executive Share Award Scheme 2009	602,756	—	50,071	£3.55	—
Share Value Plan 2011	130,293	—	5,377	£2.76	—
Share Value Plan 2012	736,877	—	50,690	£2.53	—
Barclays LTIP 2011-2013	1,447,701	—	119,506	£2.76	—
Barclays LTIP 2012-2014	2,158,661	—	178,195	£1.81	—
Barclays LTIP 2013-2015	—	1,038,623	85,737	£3.06	—

The interests shown in the table above are the maximum number of Barclays' shares that may be received under each plan. Executive Directors do not pay for any share plan or long-term incentive plan awards (other than Sharesave). Numbers shown for Executive Share Award Scheme (ESAS) represent provisional allocations that have been awarded and may also include shares under option as at 31 December 2013. Antony Jenkins received 834 dividend shares from ESAS awards released in 2013 and 68,896 dividend shares from SVP awards released in 2013 (market price on release date was £3.06).

Chris Lucas received 15,369 dividend shares from the PSP award released in 2013 (market price on release date was £3.06) and 6,492 dividend shares from the SVP award released in 2013 (market price on release date was £3.06 and £3.07). With the exception of Chris Lucas' SVP 2012 award, SVP awards do not have performance conditions as the awards are deferred share bonuses. Vesting of SVP awards is dependent on future service and subject to malus conditions. The vesting of 50% of each tranche of Chris Lucas' SVP 2012 award is subject to the condition that on vesting return on equity exceeds cost of equity. The vesting of the second and third tranches of Chris Lucas' SVP 2012 award are also subject to the Committee being satisfied with progress against the PRA's capital targets. The highest and lowest Barclays share prices during 2013 were £3.31 and £2.49 respectively; the share price on 31 December 2013 was £2.72. In relation to Chris Lucas' PSP 2010-2012 award, the RoRWA performance measure was not met and the TSR performance measure was partially met. The Committee also considered the underpin and was satisfied with the underlying health of the Group. As a result, the award vested in March 2013 at 0.7 times the initial award (maximum was three times). SVP 2013 granted to Tushar Morzaria was granted in respect of awards he forfeited as a result of accepting employment at Barclays. This award was made in line with the Barclays' recruitment policy.

Outstanding Contingent Capital Plan awards and Cash Value Plan awards (audited)

	Value under award at 1 January 2013 (maximum) (£000)	Value awarded in year (maximum) (£000)	Value paid in year (£000)	Value lapsed in year (£000)	Value under award at 31 December 2013 (maximum) (£000)	First scheduled release date	Last scheduled release date
Antony Jenkins							
Contingent Capital Plan 2011	900	—	450	—	450	15/03/2012	15/03/2014
Cash Value Plan 2012	2,250	—	750	—	1,500	18/03/2013	16/03/2015
Chris Lucas							
Contingent Capital Plan 2011	360	—	180	—	180	23/05/2012	23/05/2014

Deferred cash bonuses granted under CCP in 2011 and CVP in 2012 are dependent on future service and vest subject to malus conditions. The vesting of CCP awards is subject to the condition that the Core Tier 1 ratio is equal to or exceeds 7%. On the vesting of CCP awards, a 'coupon' may be added which for the awards shown is 7% on the award amount (on an annualised and non-compounded basis). In addition to the values paid in year shown in the table above, a coupon of 7% was paid on the CCP amounts paid in 2013. Executive Directors do not pay for CCP awards. On the vesting of CVP awards, a 'service credit' may be added on the third and final vesting amount which for the award shown is 10% on the award amount. Antony Jenkins received the CVP award as part of his 2011 bonus, which was awarded in respect of performance in his role as CEO of Retail and Business Banking. He did not pay for the award.

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Number of shares released/exercised	Market price on release/exercise date	Number of shares lapsed in 2013	Number of shares under award/option at 31 December 2013 (maximum)	Vested number of shares under option	Value of release/exercise (£000)	End of three-year performance period, or first exercise/scheduled release date	Last exercise/scheduled release date
7,052	£3.06	—	—	—	22	—	—
—	—	—	1,139,217	—	—	31/12/2014	25/05/2015
—	—	—	1,371,280	—	—	31/12/2014	25/05/2015
—	—	—	1,545,995	—	—	31/12/2015	07/03/2016
412,141	£3.06	—	—	—	1,260	—	—
142,685	£3.06	—	154,463	—	436	12/03/2012	15/03/2014
1,182,073	£3.06	—	664,754	—	3,614	18/03/2013	16/03/2015
—	—	—	2,159,941	—	—	17/03/2014	16/03/2015
—	—	—	1,089,495	—	—	17/03/2014	05/03/2018
209,298	£3.06	718,020	—	—	640	—	—
—	—	—	4,043	—	—	01/11/2014	30/04/2015
—	—	—	6,765	—	—	01/11/2015	30/04/2016
44,006	£3.06	—	—	—	135	—	—
602,634	£2.59	—	50,193	—	1,561	18/03/2013	16/03/2015
65,146	£3.07	—	70,524	—	200	08/05/2012	06/05/2014
122,813	£3.06	—	664,754	—	375	18/03/2013	16/03/2015
—	—	—	1,567,207	—	—	31/12/2013	06/05/2014
—	—	—	2,336,856	—	—	31/12/2014	25/05/2015
—	—	—	1,124,360	—	—	31/12/2015	07/03/2016

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Implementation of the Salz Review Recommendations



'A roadmap for change.'

Introduction

The Board commissioned a review of Barclays' business practices in July 2012, led by Sir Anthony Salz, with a view to providing a comprehensive roadmap for cultural change. Sir Anthony Salz published his report in April 2013, and the Board intends to implement all 34 recommendations. To date we are pleased with progress made, although our work is ongoing.

The Salz recommendations have been fully integrated into the Transform programme, our long-term plan to transform the culture and performance of Barclays, with the goal of becoming the 'Go-To' bank. The primary tool against which we will report progress annually and measure success is our Balanced Scorecard, which sets out a clear description of what we want Barclays to be, out to 2018. The organisation is aligned to the Balanced Scorecard and to our Purpose, Values and Behaviours through the new performance management framework.

Below we have summarised progress against the Review's 34 recommendations. This update is not intended to be exhaustive and the Salz Review Report which details all the recommendations in full can be found on our website. Core elements of our Transform Programme, which address many of the recommendations, are described in further detail elsewhere in this report.

We are confident that implementing the Review's recommendations will help us become the 'Go-To' bank for all our stakeholders.

1 Regulatory and business standards

To ensure we work collaboratively and openly with regulators, we have been building the necessary culture, resources, capabilities and processes. We have developed a centralised database to facilitate internal and external coordination of regulatory interactions. Furthermore, all senior colleagues who work with regulators have undergone training to ensure communication with regulators is clear and transparent. Our performance and reward systems now assess colleagues on compliance with the spirit as well as the letter of the law and regulation. Since his appointment, Sir David Walker as Chairman has been obtaining feedback from regulators and other public authorities on an on-going basis.

2 Setting high standards

The Balanced Scorecard is the centrepiece of our plan – alongside our Purpose, Values and Behaviours – to embed the right culture in our business and become the 'Go-To' bank. Both are embedded in the new performance management framework and drive variable compensation. From mid-year 2013, Senior Leaders received separate performance ratings in relation to both their objectives ('what' they delivered) and our values ('how' they delivered). This now applied to Managing Directors (MDs) as of the 2013 year-end and will to all colleagues from January 2014.

3 Customers

The Balanced Scorecard (see page 10) is cascaded into business unit and function scorecards, which define targets for meeting the needs and expectations of customers and of our other stakeholders. We have also launched initiatives that capture and build on customer feedback such as 'YourBank' – an online forum in the UK that allows people to submit, share and vote on ideas for improving Barclays' everyday banking services. To date we have received more than 3,500 ideas. Internally, we have enriched our complaints reporting to management and will provide regular reports to the Board. Our external complaints reporting has been enhanced in the UK with reporting that goes beyond the FCA requirements as well as

externally published 'Spotlight' reports that focus on our response to key customer complaints.

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4 Bringing the values to life

In 2013, more than 98% of colleagues attended Values and Behaviours engagement sessions. In parallel, we have established a comprehensive leadership development curriculum which integrates Values and Behaviours into our learning programmes for Managing Directors and all colleagues. For more detail see the People section on pages 86 to 88. Further, we have trained 1,500 Values Leaders to champion our Values and Behaviours across the bank. In July, we hosted an online values forum, providing a direct opportunity for colleagues to voice their opinion – over 29,000 posts were generated.

5 Monitoring progress

The Balanced Scorecard defines what we need to achieve over the next five years to be well on the way to becoming the 'Go-To' bank. This provides the framework and starting point for all colleagues when they set their individual performance objectives, and colleagues will also be assessed against how they live the values and behaviours. To inform our broader understanding of areas where we can make improvements we are using customer, colleague and other stakeholders surveys.

6 Code of conduct

We published our global Code of Conduct – 'The Barclays Way' – in October 2013. It outlines our way of working across our business globally and will be refreshed annually. As of February 2014 more than 137,000 colleagues had attested to having read and understood the Code and colleagues will be required to re-attest annually.

7 Board experience

Our stated objective is that approximately 50% of Non-Executive Directors (NEDs) have financial services experience. Furthermore, we now require that 25-33% of that 50% have directly relevant banking experience and this has been a key factor for the appointment of new NEDs. Over the last year we have appointed Wendy Lucas Bull, Mike Ashley and Stephen Thieke, all of whom have significant directly relevant banking experience, from a variety of sources. For further detail see pages 83 to 85.

8 Non-Executive Directors

We updated the Charters of Expectations and NED appointment letters in October 2013 to reflect an additional time commitment of 25-30 days p.a. for Chairmen of Board Committees above the average 30-36 days p.a. commitment for all NEDs. In order to facilitate NED engagement with the business we have in place a programme to help NEDs build a detailed understanding of specialist topics as well as a NED Induction Programme, to allow new NEDs to meet business and functional heads. For further detail see the Corporate Governance section on page 52.

9 Board information

Revised Board paper guidelines were published in July 2013, and a revised executive summary template was introduced in late 2013. Together these require papers to

10 Cohesive executive team

We have established a Senior Leadership Group (top 150) to build confidence, unity and collective ownership of our change programme. To improve transparency of our most senior decision making, we tried new and different formats for the Group Executive Committee in 2013. For example, we opened up some sessions to include a broader group of Senior Leaders as observers and participants. The Board reviews the effectiveness of senior executives regularly on an informal basis and formally through the Board Effectiveness Review annually. For more information see page 58. Individual Group ExCo remuneration recommendations take into account the ExCo members' effectiveness.

11 Group Chief Executive Succession

The Board Corporate Governance and Nominations Committee regularly reviews the Group CEO role profile and conducts an annual review of the Group CEO succession plan. This Committee has oversight for talent management and future leader succession planning. Several talent receptions were held in 2013, to increase the opportunity for meaningful interactions between NEDs and Senior Leaders. For further detail see the Corporate Governance section on page 75. All Group ExCo appointments in 2013 have considered both internal and external candidates and 12/41 (29%) of Senior Leader appointments were external.

12 Board coordination

We considered holding joint meetings of Board Committees to improve collaboration and coordination; however, we concluded the most efficient means of achieving this objective was cross participation. For example, Wendy Lucas Bull sits on both the Barclays Africa Group Limited Board and the Barclays Group Board. Excluding the Chairman, nine of our NEDs sit on more than one Board Committee, with four sitting on three or more Committees. Moreover, the Board Enterprise Wide Risk Committee (BEWRC) comprises the Chairmen of each of the other principal Board Committees, further enhancing coordination.

13 Board Committee for conduct, reputational and operational risk

The Board Conduct, Reputation and Operational Risk Committee (BCRORC) was established in January 2013 to oversee the governance of non-financial risk whilst the BEWRC takes a Group wide view of risks and controls, to bring together in one place the entire financial and non-financial risk profile of Barclays. For further detail on the mandate of both Committees see the Corporate Governance section on pages 73 to 77.

14 Board effectiveness

The methodology and results of our 2013 Board annual effectiveness review, facilitated by an independent third party are summarised on page 58. The activities being undertaken to address recommendations from prior years are presented on page 60 and progress against this year's objectives will be outlined in the 2014 Annual Report.

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be short, insightful and neutral, present essential themes and help inform a robust debate. To support this, Group functional teams have taken increased responsibility for providing balanced and timely oversight of papers that business units intend to present to the Board.

15 Shareholder interaction

The Chairman's Corporate Governance report on page 52 provides examples of how we have promoted open and effective communication with shareholders, including our shareholder communications guidelines which can be found on our website. We are committed to the constructive use of the AGM and proactively encourage shareholder participation, both through attendance and voting. The 2013 Annual Report incorporates new elements to help stakeholders navigate the regulatory and statutory disclosure requirements, whilst providing insight and context to the long term strategy and Purpose as defined by our Balanced Scorecard.

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16 Strengthening Human Resources

The Group HR Director was appointed to the Group ExCo in 2009 and this remains an ExCo level role to contribute to strong and effective governance. Irene McDermott Brown was appointed as the Group HR Director in July 2013 following consultation with the Chairman, members of the Board Corporate Governance and Nominations Committee and Board Remuneration Committee. As a member of the Group ExCo and the leader of the HR function, Irene has championed a number of initiatives to embed our Purpose, Values and Behaviours and introduce a new performance management approach.

17 Employee engagement

We introduced a new policy in early 2014 outlining how we will help colleagues build their skillset and take ownership of their careers. For example, for new joiners we have developed a Global Induction Programme, 'Being Barclays' which combines face to face training supported by an online portal. We have also established leadership development programmes such as the Barclays Leadership Academy, further detail can be found on page 86. For top performers we will encourage mobility through secondments and placements and offer mentoring and NED exposure opportunities. Further, our global recognition plan to be rolled out in 2014 will allow us to recognise colleague contributions with a simple thank you or monthly awards.

18

Improving the performance management process

Our new performance management approach aligns to our Purpose, Values and Behaviours. It measures both 'what' a colleague delivers and also 'how' they achieve their objectives. This new approach reinforces the relationship between performance, pay and other key HR decisions. To support this guidance has been issued to managers on how to set objectives aligned to a Balanced Scorecard and deliver clear and honest feedback; this will be supplemented by further training in 2014. Performance audits will be undertaken in 2014 to ensure the effectiveness of performance management outcomes.

19 Recruiting and induction

Our recruitment process for Leaders now includes an assessment against Values; this will be rolled out to all colleagues. For a significant number of MD opportunities, we have supplemented the process with a Values assessment by an external partner specialising in business psychology. Our 'Being Barclays' induction programme is compulsory for new joiners, including MDs and Directors, and supports engagement with our Purpose, Values and Behaviours within the first 90 days of joining Barclays.

20 Developing Barclays' future leaders

In 2013, we designed and implemented a global approach to talent identification and Group ExCo conducted a review of Senior Leaders across the organisation. During 2014, we will put in place mechanisms to improve

21 Pay principles

Our new Remuneration Policy on pages 100 to 110 reflects common pay principles across the bank and expressly links remuneration decisions to sustained performance, risk-alignment and our Purpose and Values. At a group and business level, the Remuneration Committee (RemCo) considers financial and non-financial measures including risk management and Balanced Scorecard outcomes in assessing performance. At an individual level, the performance-pay linkages have been further enhanced, incorporating the new performance approach which considers both 'what' and 'how' the colleague delivers. All colleagues are required to have risk and control objectives.

22 Retail incentives

We have removed retail sales incentives which may encourage behaviours that conflict with meeting customer needs in UK retail branches, with similar changes to be introduced in Africa. In 2014, all UK retail colleagues, across the customer network, working in the same customer-facing role will be rewarded with an equal share of the overall performance reward as measured through a Balanced Scorecard unless individual performance standards, based on appropriate behaviours, are not met.

23 Discretionary pay

When determining the discretionary incentive pool, financial and non-financial measures including risk management and Balanced Scorecard outcomes are key considerations for the Remuneration Committee in assessing performance. The Remuneration Review Panel has been established to focus on making recommendations to the RemCo on risk adjustment to incentive pools and individual malus outcomes. The Panel has also issued guidance to ensure consistency in getting risk based decisions right the first time. We made significant improvements in disclosure in the 2012 Remuneration report, and have adopted the same approach in the 2013 report.

24 Long-term awards

Our Long Term Incentive Plans (LTIPs) are now restricted to Group ExCo only and will be further limited to Executive Directors in 2014. The new LTIP is a Group-wide plan that is calibrated to financial performance adjusted for risk on a group wide basis. RemCo gives careful consideration to value at award to ensure that LTIPs are appropriately considered in the wider context of pay awards and disclosures. The annual Directors' Remuneration Report on pages 111 to 121 sets out full details of the 'value at award', maximum potential face value and actual pay outs from LTIPs.

25 Control functions' incentives

As of February 2013, control functions now have solid reporting lines into the Group CEO rather than business heads to avoid conflict of interest. Separate functional incentive pools are now in place, the size of each is influenced by performance against a function Balanced

transparency in identification of talent across all levels and opportunities for mobility and development to support our leadership and diversity initiatives. Promotion at all levels now includes assessment against the Values. For MD promotion, this is conducted by an external partner.

Scorecard. Individual performance objectives and reward are now aligned to the relevant function Balanced Scorecard and will be independent of the financial performance of businesses they support.

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26 Control functions' review of compensation

The Remuneration Review Panel has been introduced to ensure appropriate and meaningful control function input into compensation decisions. The Remuneration Review Panel is independent of the business and its membership includes the control functions. As part of its remit the Panel makes recommendations to RemCo on risk adjustments to the incentive pools, and individual malus and suspensions. Control function input includes information relating to behaviour and conduct issues. Managers have also received guidance on incorporating risk and control behaviours when determining reward recommendations.

27 Board's role in compensation oversight

The Board has established a new Remuneration Policy (see pages 100 to 110) which sets out clear principles and is aligned to our Purpose, Values and Behaviours. The Remuneration Committee Terms of Reference require consideration and approval of remuneration arrangements for high earners and colleagues who influence the risk profile of the organisation. The RemCo formally reports to the Board after each meeting. It works closely with the Board Risk Committees and receives risk input from the Chief Risk Officer at each meeting, an annual 'Risk Perspective on Performance' assessment as well as input from the Remuneration Review Panel. The Remuneration Committee annually reviews the appointment of its independent advisor which must adhere to the UK Code of Conduct for executive remuneration consultants.

28 Risk culture and control framework

The Barclays ERMF published in December 2013 sets risk appetite principles; defines risk appetite accountabilities for the CEO and CRO; and defines the roles and responsibilities across the three lines of defence. Risk appetite statements were set and approved by the BEWRC in December 2013. Colleagues are now assessed against mandatory risk and control objectives, in particular, front office Investment Bank colleagues' objectives specifically refer to unauthorised trading.

29 Conduct, reputational and operational risk

The Barclays ERMF, together with the defined risk appetite statements and upcoming Key Risk Control Frameworks factor conduct, reputational and operational risks into business decisions and governance. Further, the Strategic Risk Assessment piloted in 2013 provides a top down view of business unit strategy integrating strategic planning activity, appetite setting and the assessment and management of material risks.

30 Issue escalation

In 2013 we ran an awareness raising whistleblowing campaign, including creation of an independent, external whistleblowing hotline run by Public Concern at Work. The Behaviours we expect, in line with our Values, mandate a colleague responsibility to have courage to speak up when they believe something is wrong. Senior Leaders are working to address perceived issues around raising concerns; feedback from colleagues suggests more work is required in this area.

31 Learning from mistakes

A Group-wide methodology for learning from mistakes relating specifically to Operational Risk was launched in January 2013. Over 2014 we will look to improve this process and investigate the potential to build out this methodology across all risk types so as to be able to apply lessons learnt more broadly.

32 Control functions' independence and influence

We announced a new functional operating model in January 2013 which promotes the independence and authority of our control functions. Compliance, Risk, Legal, Finance and HR now have solid reporting lines into the Group Function Head. Appointment of Head of Compliance is subject to consultation with the Chairman and Chairman of the BCORC. We are also reinforcing the compliance culture throughout the bank, 'Building an Effective Control Environment' is a core capability that underpins our development approach across all levels.

33 Internal Audit

In July 2012 we introduced a revised audit methodology to improve efficiency and effectiveness. We will continue to review the audit schedule and methodology to ensure both are fit for purpose. We conduct regular internal and external skills assessment reviews to ensure our audit teams have the appropriate skills and experience aligned to each business, with particular deep dives into the Investment Bank team. In 2013 our Internal Audit Charter was reviewed and updated to reflect the requirement to provide assurance on the risk culture of the firm – we will continue to refresh the Charter annually.

34 Implementation

This section of the Annual Report provides a summary of our progress on implementation. This and all previous editions can be found on our website.

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Insight into the level of risk across Barclays' businesses and portfolios, the material risks and uncertainties faced and the key areas of management focus. To find out more about the major risk policies which underlie our risk exposures, consolidated policy-based qualitative information is available under Risk management.

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The management of risk plays a central role in the execution of Barclays' strategy.
For 2013, Barclays' Risk Management disclosures are located across the Annual Report and Pillar 3 Report.

		Annual Report Risk review	Pillar 3 Report Risk management
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perceived by stakeholders to be inappropriate or unethical.

Conduct risk

■ Conduct risk

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

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

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

Business conditions and the general economy

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

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

The global economy continues to face an environment characterised by low growth. However, governments and central banks in advanced economies have maintained

Credit risk

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

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

Deteriorating economic conditions

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

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

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

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

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

The Spanish and Portuguese economies, in particular their housing and property sectors, remain under significant stress with falling property prices having led to higher LTV ratios and contributing to higher impairment

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

charges. If these trends continue or worsen and/or if these developments occur in other European countries such as Italy: the Group may incur significant impairment charges in the future, which may materially adversely affect the Group's results of operations, financial condition and prospects.

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



For further information see pages 158 to 176

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Risk factors continued

[iii\) Political instability or economic uncertainty in markets in which Barclays operates](#)

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

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

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



For further information see pages 182 to 189

[\(iv\) Exit of one or more countries from the Eurozone](#)

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

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

If some or all of these conditions arise, persist or worsen, as the case may be, they may have a material adverse effect on the Group's operations, financial condition and

[Specific sectors and geographies](#)

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

[i\) Exit Quadrant assets](#)

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



For further information see page 181

[ii\) Corporate Banking assets held at fair value](#)

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

[iii\) Large single name losses](#)

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

[Market risk](#)

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

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

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

prospects. The current absence of a predetermined mechanism for a member state to exit the Euro means that it is not possible to predict the outcome of such an event or to accurately quantify the impact of such an event on the Group's operations, financial condition and prospects.

i) Reduced client activity and decreased market liquidity

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



For further information see pages 190 to 198

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ii) Uncertain interest rate environment

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



For further information see pages 190 to 198

iii) Pension fund risk

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



For further information see pages 197 and 198

Funding risk

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

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

i) Maintaining capital strength in increasingly challenging environment

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

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

ii) Changes in funding availability and costs

Should the Group fail to manage its liquidity and funding risk sufficiently, this may result in: an inability to support normal business activity; and/or a failure to meet liquidity regulatory requirements; and/or changes to credit ratings. Any material adverse change in market liquidity (such as that experienced in 2008), or the availability and cost of customer deposits and/or wholesale funding, in each case whether due to factors specific to Barclays (such as due to a downgrade in Barclays' credit rating) or to the market generally, could adversely impact the Group's ability to maintain the levels of liquidity required to meet regulatory requirements and sustain normal business activity. In addition, there is a risk that the Group could face sudden, unexpected and large net cash outflows, for example from customer deposit withdrawals, or unanticipated levels of loan drawdowns under committed facilities, which could result in (i) forced reductions in Barclays' balance sheet; (ii) Barclays being unable to fulfil its lending obligations; and (iii) a failure to meet the Group's liquidity regulatory requirements. During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and increased costs of raising funding could all adversely impact the results of operations, financial condition and prospects of the Group.

iii) Changes in foreign exchange and interest rates

The Group has capital resources and risk weighted assets denominated in foreign currencies; changes in foreign exchange rates result in changes in the Sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the Group's regulatory capital ratios are sensitive to foreign currency movements. The Group also has exposure to non-traded interest rate risk, arising from the provision of retail and wholesale (non-traded) banking products and services. This includes current accounts and equity balances which do not have a defined maturity date and an interest rate that does not change in line with base rate changes.

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and III). Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's CRD IV capital.

Failure to appropriately manage the Group's balance sheet to take account of these risks could result in: (i) in the case of foreign exchange risk, an adverse impact on regulatory capital ratios; and (ii) in the case of non-traded interest rate risk, an adverse impact on income. Structural risk is difficult to predict with any accuracy and may have a material adverse effect on the Group's results of operations, financial condition and prospects.

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Operational risk

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

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

[i\) Infrastructure and technology resilience](#)

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

[ii\) Ability to hire and retain appropriately qualified employees](#)

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

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

[iv\) Critical accounting estimates and judgments](#)

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

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

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

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

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

[v\) Risks arising from legal, competition and regulatory matters](#)

iii) Cyber-security

The threat to the security of the Group's information held on customers from cyber-attacks is pertinent and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could adversely affect the Group's reputation, operations, financial condition and prospects.

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

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

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

[Risks arising from material legal, competition and regulatory matters](#)

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

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

Material legal, competition and regulatory matters to which the Group is currently exposed are detailed in Note 30 to the financial statements and include:

- Lehman Brothers civil action;
- Civil actions in respect of certain series of preference shares issued in the form of American Depositary Shares;
- Mortgage related activity and litigation;
- Devonshire Trust civil action;
- London Interbank Offered Rates (LIBOR) and other benchmarks civil actions; civil actions in respect of foreign exchange trading; and investigations into LIBOR, ISDAfix and other benchmarks and foreign exchange rates;
- Federal Energy Regulatory Commission – matters relating to the Group's power trading in the western US;
- BDC Finance LLC civil action;
- Interchange investigations;
- Interest rate hedging products redress;
- Credit default swap antitrust investigations;
- Swiss/US tax programme; and
- Investigations into certain agreements, including two advisory services agreements entered into by BBPLC and Qatar Holding LLC in 2008.

The outcome of each of these legal, competition and regulatory matters (and any future matters) is difficult to predict. However, it is likely that the Group will incur significant expense in connection with some or all of these

[Potential financial and reputational impacts of other legal, competition and regulatory matters or other proceedings](#)

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

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

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

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

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

[vi\) Regulatory risk](#)

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

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matters, regardless of the ultimate outcome, and one or more of them could expose the Group to any of the following: substantial monetary damages and/or fines; other penalties and injunctive relief; additional civil or private litigation; criminal prosecution in certain circumstances; the loss of any existing agreed protection from prosecution; regulatory restrictions on the Group's business; increased regulatory compliance requirements; suspension of operations; public reprimands; loss of significant assets; and/or a negative effect on the Group's reputation.

risk management strategies

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

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[Regulatory change](#)

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

For further information see Regulatory Developments in the section on Supervision and Regulation.

[Implementation of Basel III/CRD IV and additional PRA supervisory expectations](#)

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

There is a risk that CRD IV requirements adopted in the UK may change, whether as a result of further changes to global standards, EU legislation, including the CRDIV text and/or via binding regulatory technical standards being developed by the European Banking Authority or changes to the way in which the PRA interprets and applies these requirements to UK banks, including as regards individual models approvals granted under CRD II and III. For example, further guidelines published by the Basel Committee in January 2014 regarding the calculation of the leverage ratio are expected to be incorporated into EU and UK law during 2014.

In addition the Financial Policy Committee of the Bank of England has legal powers, where this is required to protect financial stability, to make recommendations about

[Structural reform](#)

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

- The UK Financial Services (Banking Reform) Act 2013, gives UK authorities the power to implement key recommendations of the Independent Commission on Banking, including: (i) the separation of the UK and EEA retail banking activities of the largest UK banks into a legally, operationally and economically separate and independent entity (so called 'ring fencing'); (ii) statutory depositor preference in insolvency; (iii) a reserve power for the PRA to enforce full separation of the retail operations of UK banks to which the reforms apply under certain circumstances; and (iv) a 'bail-in' stabilisation option as part of the powers of the UK resolution authority;
- The European Commission proposals of January 2014 for a directive to implement recommendations of the EU High Level Expert Group Review (the Liikanen Review). The directive would apply to EU globally significant financial institutions and envisages, among other things: (i) a ban on engaging in proprietary trading in financial instruments and commodities; (ii) giving supervisors the power and, in certain instances, the obligation to require the transfer of other trading activities deemed to be 'high risk' to separate legal trading entities within a banking group; and (iii) rules governing the economic, legal, governance and operational links between the separated trading entity and the rest of the banking group;
- On 18 February 2014, the US Board of Governors of the Federal Reserve System (FRB) issued final rules implementing various enhanced prudential standards under Section 165 of the DFA applicable to certain foreign banking organisations and their US operations, including Barclays. Because its total US and non-US assets exceed \$50bn, Barclays would be subject to the most stringent requirements of the final rules, including the requirement to create a US intermediate holding company (IHC) structure to hold its US banking and non-banking subsidiaries, including Barclays Capital Inc. the Group's US broker-dealer subsidiary. The IHC would generally be subject to supervision and regulation, including as to regulatory capital and stress testing, by the FRB as if it were a US bank holding company of comparable size. In particular, under the final rules, the consolidated IHC would be subject to a number of additional supervisory and prudential requirements, including: (i) subject to certain limited exceptions, FRB regulatory capital requirements and leverage limits that are the same as those applicable to US banking organisations of comparable size; (ii) mandatory company-run and supervisory stress testing of capital levels and submission of a capital plan to the FRB; (iii) supervisory approval of and limitations on capital distributions by the IHC to Barclays Bank PLC; (iv) additional substantive liquidity requirements (including monthly internal liquidity stress tests and maintenance of specified liquidity buffers) and other liquidity risk management requirements; and (v) overall risk management requirements, including a US risk committee and a US chief risk officer. The effective date

the application of prudential requirements, and has, or may be given, other powers including powers to direct the PRA and FCA to adjust capital requirements through sectoral capital requirements (SCR). Directions would apply to all UK banks and building societies, rather than to the Group specifically.

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

of the final rule is 1 June 2014, although compliance with most of its requirements will be phased-in between 2015 and 2018. Barclays will not be required to form its IHC until 1 July 2016. The IHC will be subject to the US generally applicable minimum leverage capital requirement (which is different than the Basel III international leverage ratio, including to the extent that the generally applicable US leverage ratio does not include off-balance sheet exposures) starting 1 January 2018. In light of the recent release of the final rules, Barclays continues to evaluate their implications for Barclays. Nevertheless, the Group currently believes that, in the aggregate, the final rules (and, in particular, the leverage requirements in the final rules that will ultimately become applicable to the IHC) are likely to increase the operational costs and capital requirements and/or require changes to the business mix of Barclays' US operations, which ultimately may have an adverse effect on the Group's overall result of operations;

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

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

[Recovery and resolution planning](#)

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

structures (including demanding that the Group be restructured into units which are more readily resolvable); limit or cease specific existing or proposed activities; hold a specified minimum amount of liabilities subject to write down or conversion powers under the so-called ‘bail-in’ tool. The proposal is to be implemented in all European Member States by 1 January 2015, with the exception of the bail-in powers which must be implemented by 1 January 2016.

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

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

[Regulatory action in the event of a bank failure](#)

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

The draft RRD includes provisions similar to the Banking Act for the introduction of statutory bail-in powers, including the power to (i) cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity and (ii) cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (including certain debt securities) of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving Group entity, if any. The Banking Act bail-in power is not expected to require significant amendments following finalisations of the RRD, but this cannot be guaranteed. Accordingly, if the Group were to be at or approaching the point of non-viability such as to require regulatory intervention, any exercise of any resolution regime powers by the relevant UK resolution authority may result in shareholders losing all or a part of their shareholdings and/or in the rights of shareholders being adversely affected, including by the dilution of their

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The EU has agreed the text of the RRD and expects to finalise the legislation in 2014. The RRD establishes a framework for the recovery and resolution of credit institutions and investment firms. The aim of this regime is to provide authorities with the tools to intervene sufficiently early and quickly in a failing institution so as to ensure the continuity of the institution or firm's critical financial and economic functions while minimising the impact of its failure on the financial system. The regime is also intended to ensure that shareholders bear losses first and that certain creditors bear losses after shareholders, provided that no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings. The Directive provides resolution authorities with powers to require credit institutions to make significant changes in order to enhance recovery or resolvability. These include, amongst others, the powers to require the group to: make changes to its legal or operational

percentage ownership of the Barclays' share capital, and may result in creditors, including debt holders, losing all or a part of their investment in the Group's securities that could be subject to such powers.

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

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

[Market infrastructure reforms](#)

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

In the US, the Dodd-Frank Act also mandates that many types of derivatives now traded in the over-the-counter markets must be traded on an exchange or swap execution facility and must be centrally cleared through a regulated clearing house. In addition, participants in these markets are now made subject to CFTC and SEC regulation and oversight. Entities required to register with the CFTC as 'swap dealers' or 'major swap participants' and/or with the SEC as 'security-based swap dealers' or 'major security-based swap dealers' are or will be subject to business conduct, capital, margin, record keeping and reporting requirements. Barclays Bank PLC has registered with the CFTC as a swap dealer.

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

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

[vii\) Losses due to additional tax charges](#)

The Group is subject to the tax laws in all countries in

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

[viii\) Implementation of the Transform programme and other strategic plans](#)

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

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

[Conduct risk](#)

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

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

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

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

stakeholders, including customers.

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

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

Further details on PPI and interest rate hedging products, including a description of management judgements and estimates and sensitivity analysis on those estimates where available are provided in Note 28 (Provisions) to the financial statements. Further details on current regulatory investigations are provided in Note 30 (Legal, competition and regulatory matters).

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

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

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

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

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

Reputation risk

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

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

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

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[Risk review >](#) **Credit risk**



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

All disclosures in this section (pages 142 to 189) are unaudited unless otherwise stated.

Introduction

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

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

More details of the topics covered in the section may be found in the credit risk section of the contents on page 132. Please see risk management section on pages 392 to 404 for details of governance, policies and procedures.

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

Basis of preparation

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

For financial assets recognised on the balance sheet, maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment. For off-balance sheet guarantees, the maximum exposure is the maximum amount that Barclays would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

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

Of the remaining exposure left unmitigated, a significant portion relates to cash held at central banks, available for sale and trading portfolio debt securities issued by governments, cash collateral and settlement balances, all of which are considered lower risk. The credit quality of counterparties to derivative, available for sale, trading portfolio and wholesale loan assets are predominantly investment grade. Further analysis on the credit quality of assets is presented on pages 149 and 150.



Further detail on the Group's credit enhancement policies are presented on pages 398 to 400

Overview

As at 31 December 2013, the Group's net exposure to credit risk after taking into account netting and set-off, collateral and risk transfer reduced 8% to £709.8bn, reflecting a reduction in maximum exposure of 11% and a reduction in the level of mitigation held by 14%. Overall, the extent to which the Group holds mitigation on its assets was stable at 54% (2012: 55%).

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

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Note

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

Maximum exposure and effects of collateral and other credit enhancements (audited)						
	Maximum exposure £m	Netting and set-off £m	Collateral		Risk transfer £m	Net exposure £m
As at 31 December 2013			Cash £m	Non-cash £m		
On-balance sheet:						
Cash and balances at central banks	45,687	–	–	–	–	45,687
Items in the course of collection from other banks	1,282	–	–	–	–	1,282
Trading portfolio assets:						
Debt securities	84,560	–	–	–	–	84,560
Traded loans	1,647	–	–	–	–	1,647
Total trading portfolio assets	86,207	–	–	–	–	86,207
Financial assets designated at fair value:						
Loans and advances	18,695	–	–	(6,840)	(301)	11,554
Debt securities	842	–	–	–	–	842
Reverse repurchase agreements	5,323	–	–	(5,006)	–	317
Other financial assets	678	–	–	–	–	678
Total financial assets designated at fair value	25,538	–	–	(11,846)	(301)	13,391
Derivative financial instruments	324,335	(258,528)	(33,511)	(7,888)	(8,830)	15,578
Loans and advances to banks	37,853	(1,012)	–	(3,798)	(391)	32,652
Loans and advances to customers:						
Home loans	179,527	–	(239)	(176,014)	(941)	2,333
Credit cards, unsecured and other retail lending	70,378	(8)	(1,182)	(18,566)	(2,243)	48,379
Corporate loans	180,506	(9,366)	(775)	(42,079)	(7,572)	120,714
Total loans and advances to customers	430,411	(9,374)	(2,196)	(236,659)	(10,756)	171,426
Reverse repurchase agreements and other similar secured lending	186,779	–	–	(184,896)	–	1,883
Available for sale debt securities	91,298	–	–	(777)	–	90,521
Other assets	1,998	–	–	–	–	1,998
Total on-balance sheet	1,231,388	(268,914)	(35,707)	(445,864)	(20,278)	460,625
Off-balance sheet:						
Contingent liabilities	19,675	–	(1,081)	(950)	(556)	17,088
Documentary credits and other short-term trade related transactions	780	–	(3)	(35)	(4)	738
Forward starting reverse repurchase agreements	19,936	–	–	(19,565)	–	371
Standby facilities, credit lines and other commitments	254,855	–	(1,220)	(20,159)	(2,529)	230,947
Total off-balance sheet	295,246	–	(2,304)	(40,709)	(3,089)	249,144
Total	1,526,634	(268,914)	(38,011)	(486,573)	(23,367)	709,769

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Credit risk continued

Maximum exposure and effects of collateral and other credit enhancements (audited)						
As at 31 December 2012	Maximum exposure £m	Netting and set-off £m	Collateral		Risk transfer £m	Net exposure £m
			Cash £m	Non-cash £m		
On-balance sheet:						
Cash and balances at central banks	86,191	–	–	–	–	86,191
Items in the course of collection from other banks	1,473	–	–	–	–	1,473
Trading portfolio assets:						
Debt securities	116,307	–	–	–	–	116,307
Traded loans	2,410	–	–	–	–	2,410
Total trading portfolio assets	118,717	–	–	–	–	118,717
Financial assets designated at fair value:						
Loans and advances	21,996	–	(1)	(7,499)	(111)	14,385
Debt securities	6,975	–	(23)	–	–	6,952
Reverse repurchase agreements	6,034	–	–	(5,165)	–	869
Other financial assets	1,229	–	–	–	–	1,229
Total financial assets designated at fair value	36,234	–	(24)	(12,664)	(111)	23,435
Derivative financial instruments	469,156	(387,672)	(46,855)	(6,328)	(8,132)	20,169
Loans and advances to banks	40,462	(1,012)	–	(5,071)	(136)	34,243
Loans and advances to customers:						
Home loans	174,988	–	(179)	(172,543)	(53)	2,213
Credit cards, unsecured and other retail lending	66,414	(10)	(909)	(17,703)	(2,321)	45,471
Corporate loans	182,504	(10,243)	(1,055)	(47,526)	(8,489)	115,191
Total loans and advances to customers	423,906	(10,253)	(2,143)	(237,772)	(10,863)	162,875
Reverse repurchase agreements and other similar secured lending	176,522	–	–	(174,918)	–	1,604
Available for sale debt securities	74,671	–	(1)	(233)	(32)	74,405
Other assets	2,001	–	–	–	–	2,001
Total on-balance sheet	1,429,333	(398,937)	(49,023)	(436,986)	(19,274)	525,113
Off-balance sheet:						
Contingent liabilities	21,857	–	(919)	(1,420)	(555)	18,963
Documentary credits and other short-term trade related transactions	1,027	–	(15)	(33)	(11)	968
Forward starting reverse repurchase agreements	23,549	–	–	(23,343)	–	206
Standby facilities, credit lines and other commitments	247,816	–	(1,013)	(16,960)	(3,396)	226,447
Total off-balance sheet^a	294,249	–	(1,947)	(41,756)	(3,962)	246,584
Total	1,723,582	(398,937)	(50,970)	(478,742)	(23,236)	771,697

Note

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

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Concentrations of credit risk

A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group implements certain limits on concentrations in order to mitigate the risk. The analyses of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged. Further detail on the Group's policies with regard to managing concentration risk is presented on page 393.

Geographic concentrations

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

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

An analysis of geographical and industry concentration of Group loans and advances held at amortised cost and at fair value is presented on pages 152 and 153. Information on exposures to Eurozone countries is presented on pages 182 to 189.

Credit risk concentrations by geography (audited)						
As at 31 December 2013	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	7,307	29,983	4,320	2,111	1,966	45,687
Items in the course of collection from other banks	756	242	–	284	–	1,282
Trading portfolio assets	15,936	21,040	37,113	2,165	9,953	86,207
Financial assets designated at fair value	17,487	2,632	3,399	1,372	648	25,538
Derivative financial instruments	98,787	112,254	85,580	2,901	24,813	324,335
Loans and advances to banks	6,379	11,483	10,455	2,554	6,982	37,853
Loans and advances to customers	235,770	74,657	67,467	39,582	12,935	430,411
Reverse repurchase agreements and other similar secured lending	34,027	32,820	102,922	1,887	15,123	186,779
Available for sale debt securities	29,540	33,816	20,189	5,875	1,878	91,298
Other assets	917	380	260	324	117	1,998
Total on-balance sheet	446,906	319,307	331,705	59,055	74,415	1,231,388
Off-balance sheet:						
Contingent liabilities	10,349	2,475	4,521	2,110	220	19,675
Documentary credits and other short-term trade related transactions	496	121	–	163	–	780
Forward starting reverse repurchase agreements	5,254	3,903	4,753	4	6,022	19,936
Standby facilities, credit lines and other commitments	102,456	35,612	99,240	15,584	1,963	254,855
Total off-balance sheet	118,555	42,111	108,514	17,861	8,205	295,246
Total	565,461	361,418	440,219	76,916	82,620	1,526,634

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Credit risk continued

Credit risk concentrations by geography (audited)						
As at 31 December 2012	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
On-balance sheet:						
Cash and balances at central banks	3,547	70,173	6,568	2,354	3,549	86,191
Items in the course of collection from other banks	788	313	–	371	1	1,473
Trading portfolio assets	16,540	21,526	63,998	3,056	13,597	118,717
Financial assets designated at fair value	24,113	4,476	5,094	1,947	604	36,234
Derivative financial instruments	147,651	157,609	127,377	4,264	32,255	469,156
Loans and advances to banks	7,506	14,915	12,278	2,110	3,653	40,462
Loans and advances to customers	228,008	81,267	61,859	45,930	6,842	423,906
Reverse repurchase agreements and other similar secured lending	29,565	25,309	98,313	4,133	19,202	176,522
Available for sale debt securities	24,018	29,803	11,128	7,103	2,619	74,671
Other assets	987	332	328	290	64	2,001
Total on-balance sheet	482,723	405,723	386,943	71,558	82,386	1,429,333
Off-balance sheet:						
Contingent liabilities	10,343	3,372	5,045	2,342	755	21,857
Documentary credits and other short-term trade related transactions	629	103	–	295	–	1,027
Forward starting reverse repurchase agreements	7,186	5,331	4,597	6	6,429	23,549
Standby facilities, credit lines and other commitments ^a	100,260	32,736	91,574	21,637	1,609	247,816
Total off-balance sheet^b	118,418	41,542	101,216	24,280	8,793	294,249
Total	601,141	447,265	488,159	95,838	91,179	1,723,582

Industrial concentrations

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

Notes

a 2012 amounts have been revised to accurately reflect the exposures within those regions. This resulted in a £6.2bn increase in the UK and a corresponding decrease in Europe.

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

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Credit risk concentrations by industry (audited)												
As at 31 December 2013	Banks £m	Other financial insti- tutions £m	Manu- facturing £m	Const- ruction and property £m	Govern- ment and central bank £m	Energy and water £m	Wholesale and retail distrib- ution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
On-balance sheet:												
Cash and balances at central banks	–	–	–	–	45,687	–	–	–	–	–	–	45,687
Items in the course of collection from other banks	1,174	–	–	–	108	–	–	–	–	–	–	1,282
Trading portfolio assets	6,964	18,064	1,379	655	50,955	3,265	545	3,312	–	–	1,068	86,207
Financial assets designated at fair value	4,720	2,835	164	8,589	5,613	162	327	3,038	–	–	90	25,538
Derivative financial instruments	219,059	78,031	1,782	2,621	6,630	8,334	1,690	3,733	–	–	2,455	324,335
Loans and advances to banks	35,738	–	–	–	2,115	–	–	–	–	–	–	37,853
Loans and advances to customers	–	99,355	10,343	23,951	4,988	7,452	12,864	20,062	179,527	52,715	19,154	430,411
Reverse repurchase agreements and other similar secured lending	62,180	116,148	–	1,083	6,019	–	23	1,326	–	–	–	186,779
Available for sale debt securities	15,625	12,817	25	97	56,780	–	21	5,435	–	–	498	91,298
Other assets	470	1,295	–	17	82	–	–	134	–	–	–	1,998
Total on-balance sheet	345,930	328,545	13,693	37,013	178,977	19,213	15,470	37,040	179,527	52,715	23,265	1,231,388
Off-balance sheet:												
Contingent liabilities	1,620	4,783	2,243	882	302	2,275	1,391	4,709	9	295	1,166	19,675
Documentary credits and other short-term trade related transactions	270	4	51	10	–	9	181	171	–	82	2	780
Forward starting reverse repurchase agreements	13,884	5,650	–	–	2	–	–	400	–	–	–	19,936
Standby facilities, credit lines and other commitments	1,886	29,348	24,381	8,935	2,839	23,765	13,221	17,474	18,731	102,088	12,167	254,855
Total off-balance sheet	17,660	39,785	26,675	9,827	3,143	26,049	14,793	22,754	18,760	102,465	13,335	295,246
Total	363,590	368,330	40,368	46,840	182,120	45,262	30,263	59,794	198,287	155,180	36,600	1,526,634

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Credit risk concentrations by industry (audited)												
As at 31 December 2012	Banks £m	Other financial insti- tutions £m	Manu- facturing £m	Const- ruction and property £m	Govern- ment and central bank £m	Energy and water £m	Wholesale and retail distrib- ution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
On-balance sheet:												
Cash and balances at central banks	—	—	—	—	86,191	—	—	—	—	—	—	86,191
Items in the course of collection from other banks	1,473	—	—	—	—	—	—	—	—	—	—	1,473
Trading portfolio assets	9,240	25,966	2,072	504	73,848	3,124	446	2,257	—	—	1,260	118,717
Financial assets designated at fair value	5,798	3,677	175	10,087	11,579	335	600	3,581	—	—	402	36,234
Derivative financial instruments	349,481	81,090	2,401	4,478	9,589	10,011	2,203	6,906	—	—	2,997	469,156
Loans and advances to banks	38,842	—	—	—	1,620	—	—	—	—	—	—	40,462
Loans and advances to customers	—	86,330	11,518	25,877	4,788	7,622	14,603	24,152	171,993	55,645	21,378	423,906
Reverse repurchase agreements and other similar secured lending	64,616	106,231	4	1,014	3,684	261	98	610	—	—	4	176,522
Available for sale debt securities	16,933	10,267	92	91	46,177	122	42	846	—	—	101	74,671
Other assets	249	632	2	34	165	6	8	192	13	694	6	2,001
Total on-balance sheet	486,632	314,193	16,264	42,085	237,641	21,481	18,000	38,544	172,006	56,339	26,148	1,429,333
Off-balance sheet:												
Contingent liabilities	1,369	4,701	2,532	1,218	1,690	2,684	1,484	4,219	89	333	1,538	21,857
Documentary credits and other short-term trade related transactions	559	51	55	3	—	1	77	275	—	4	2	1,027
Forward starting reverse repurchase agreements	17,853	5,086	20	—	1	—	33	548	—	8	—	23,549
Standby facilities, credit lines and other commitments ^a	8,068	26,396	24,937	8,675	3,829	21,790	10,566	13,727	17,538	96,993	15,297	247,816
Total off-balance sheet^b	27,849	36,234	27,544	9,896	5,520	24,475	12,160	18,769	17,627	97,338	16,837	294,249
Total	514,481	350,427	43,808	51,981	243,161	45,956	30,160	57,313	189,633	153,677	42,985	1,723,582

Notes

a 2012 amounts for Banks have been revised to include £8,068m previously categorised as Other financial institutions.

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

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Balance sheet credit quality

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

Basis of preparation

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

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

Non-performing loans – loans that are impaired or are past due but not impaired – have been included in the Higher risk category for this analysis with prior year comparatives restated to align presentation. An age analysis of both is presented on pages 155 and 156.

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

For further information on the way in which Barclays measures the credit quality of its loan portfolios, refer to page 404.

Overview

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

Traded assets remain mostly investment grade within the strong category, with counterparties to 95% (2012: 94%) of total derivative financial instruments, and issuers of 95% (2012: 93%) of debt securities held for trading and 96% (2012: 94%) of debt securities held available for sale being investment grade. The credit quality of counterparties to reverse repurchase agreements held at amortised cost remained broadly stable at 76% (2012: 73%). The credit risk of these assets is significantly reduced due to the high levels of collateralisation held.

In the loan portfolios, 85% of home loans (2012: 82%) to customers are measured as strong. The increase in the period reflects the acquisition of the largely strong credit quality portfolio in Barclays Direct during the year and improvements in the UK portfolio. The majority of credit card, unsecured and other retail lending remained satisfactory, reflecting the unsecured nature of a significant proportion of the balance, comprising 71% of the total (2012: 69%). The credit quality profile of the Group's wholesale lending improved with counterparties rated strong increasing to 69% (2012: 66 %), primarily due to increases in settlement and collateral balances which are generally rated strong in the Investment Bank.

 Further analysis of debt securities by issuer and issuer type is presented on page 178
Further information on netting and collateral arrangements on derivatives financial instruments is presented on pages 179 and 180

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Credit risk continued

Balance sheet credit quality (audited)								
As at 31 December 2013	Strong (including investment grade) £m	Satisfactory (BB+ to B) £m	Higher risk (B- and below) £m	Maximum exposure to credit risk £m	Strong (including investment grade) %	Satisfactory (BB+ to B) %	Higher risk (B- and below) %	Maximum exposure to credit risk %
Cash and balances at central banks	45,687	–	–	45,687	100%	0%	0%	100%
Items in the course of collection from other banks	1,218	51	13	1,282	95%	4%	1%	100%
Trading portfolio assets:								
Debt securities	80,190	3,633	737	84,560	95%	4%	1%	100%
Traded loans	526	700	421	1,647	32%	42%	26%	100%
Total trading portfolio assets	80,716	4,333	1,158	86,207	94%	5%	1%	100%
Financial assets designated at fair value:								
Loans and advances	17,020	1,017	658	18,695	91%	5%	4%	100%
Debt securities	403	36	403	842	48%	4%	48%	100%
Reverse repurchase agreements	4,492	794	37	5,323	84%	15%	1%	100%
Other financial assets	255	191	232	678	38%	28%	34%	100%
Total financial assets designated at fair value	22,170	2,038	1,330	25,538	87%	8%	5%	100%
Derivative financial instruments	309,069	14,549	717	324,335	95%	4%	1%	100%
Loans and advances to banks	35,181	1,634	1,038	37,853	93%	4%	3%	100%
Loans and advances to customers:								
Home loans	153,299	14,373	11,855	179,527	85%	8%	7%	100%
Credit cards, unsecured and other retail lending	14,728	50,100	5,550	70,378	21%	71%	8%	100%
Corporate loans	124,560	46,187	9,759	180,506	69%	26%	5%	100%
Total loans and advances to customers	292,587	110,660	27,164	430,411	68%	26%	6%	100%
Reverse repurchase agreements and other similar secured lending	141,861	44,906	12	186,779	76%	24%	0%	100%
Available for sale debt securities	87,888	1,354	2,056	91,298	96%	2%	2%	100%
Other assets	1,598	340	60	1,998	80%	17%	3%	100%
Total assets	1,017,975	179,865	33,548	1,231,388	83%	14%	3%	100%
As at 31 December 2012								
Cash and balances at central banks	86,191	–	–	86,191	100%	0%	0%	100%

Items in the course of collection from other banks	1,337	103	33	1,473	91%	7%	2%	100%
Trading portfolio assets:								
Debt securities	108,379	5,841	2,087	116,307	93%	5%	2%	100%
Traded loans	460	1,617	333	2,410	19%	67%	14%	100%
Total trading portfolio assets	108,839	7,458	2,420	118,717	92%	6%	2%	100%
Financial assets designated at fair value:								
Loans and advances	19,609	1,684	703	21,996	89%	8%	3%	100%
Debt securities	6,219	287	469	6,975	89%	4%	7%	100%
Reverse repurchase agreements	5,010	963	61	6,034	83%	16%	1%	100%
Other financial assets	664	462	103	1,229	54%	38%	8%	100%
Total financial assets designated at fair value	31,502	3,396	1,336	36,234	87%	9%	4%	100%
Derivative financial instruments	443,112	23,498	2,546	469,156	94%	5%	1%	100%
Loans and advances to banks	36,668	2,868	926	40,462	91%	7%	2%	100%
Loans and advances to customers:								
Home loans	142,828	20,407	11,753	174,988	81%	12%	7%	100%
Credit cards, unsecured and other retail lending	15,169	45,852	5,393	66,414	23%	69%	8%	100%
Wholesale	121,161	51,196	10,147	182,504	66%	28%	6%	100%
Total loans and advances to customers	279,158	117,455	27,293	423,906	66%	28%	6%	100%
Reverse repurchase agreements and other similar secured lending	129,687	46,644	191	176,522	74%	26%	0%	100%
Available for sale debt securities	69,871	2,331	2,469	74,671	94%	3%	3%	100%
Other assets	1,623	322	56	2,001	81%	16%	3%	100%
Total assets	1,187,988	204,075	37,270	1,429,333	83%	14%	3%	100%

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As the principal source of credit risk to the Group, loans and advances to customers and banks are analysed in detail below:

Analysis of loans and advances and impairment

Retail and wholesale loans and advances to customers and banks							
	Gross L&A £m	Impairment allowance £m	L&A net of impairment £m	Credit risk loans ^a £m	CRLs % of gross L&A %	Loan impairment charges £m	Loan loss rates bps
As at 31 December 2013							
Total retail	236,219	4,372	231,847	7,567	3.2	2,161	91
Wholesale – customers	201,998	2,876	199,122	5,713	2.8	918	45
Wholesale – banks	37,305	10	37,295	18	–	(17)	(5)
Total wholesale	239,303	2,886	236,417	5,731	2.4	901	38
Loans and advances at amortised cost	475,522	7,258	468,264	13,298	2.8	3,062	64
Traded loans	1,647	n/a	1,647				
Loans and advances designated at fair value	18,695	n/a	18,695				
Loans and advances held at fair value	20,342	n/a	20,342				
Total loans and advances	495,864	7,258	488,606				
As at 31 December 2012							
Total retail	232,672	4,635	228,037	8,722	3.7	2,075	89
Wholesale – customers	199,423	3,123	196,300	6,252	3.1	1,251	63
Wholesale – banks	40,072	41	40,031	51	0.1	(23)	(6)
Total wholesale	239,495	3,164	236,331	6,303	2.6	1,228	51
Loans and advances at amortised cost	472,167	7,799	464,368	15,025	3.2	3,303	70
Traded loans	2,410	n/a	2,410				
Loans and advances designated at fair value	21,996	n/a	21,996				
Loans and advances held at fair value	24,406	n/a	24,406				
Total loans and advances	496,573	7,799	488,774				

Loans and advances to customers and banks at amortised cost net of impairment remained stable at £468.3bn (2012: £464.4bn). This reflected a £3.8bn increase to £231.8bn in the retail portfolios, driven by increased mortgage lending and the acquisition of Barclays Direct in UK RBB. This was offset by reductions in Africa RBB, largely reflecting currency movements.

This growth combined with lower impairment charges on loans and advances resulted in a lower loan loss rate of 64bps (2012: 70bps).

Further detail can be found in the Retail and Wholesale Credit Risk sections on pages 158 and 173 respectively

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Credit risk continued

Group loans and advances held at amortised cost, by industry sector and geography

Loans and advances, net of impairment allowances, held at amortised cost increased by 0.8% to £468,264m. This was driven by a rise in cash collateral and settlement balances, reflected in lending to other financial institutions, and an increase in home loans in the UK due to increased demand and the acquisition of Barclays Direct. This was offset by decreases in Africa, due to currency movements, and in Europe, due to the realignment of our target customer profile.

Loans and advances at amortised cost net of impairment allowances by industry sector and geography						
	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
As at 31 December 2013						
Banks	5,718	11,322	10,141	2,318	6,239	35,738
Other financial institutions	21,142	18,359	45,963	6,117	7,774	99,355
Manufacturing	5,306	1,916	1,297	1,218	606	10,343
Construction	3,133	417	19	347	27	3,943
Property	15,022	1,985	937	1,941	123	20,008
Government and central bank	1,546	1,739	685	1,325	1,808	7,103
Energy and water	1,715	3,035	1,489	735	478	7,452
Wholesale and retail distribution and leisure	9,609	1,296	464	1,320	175	12,864
Business and other services	12,826	2,656	2,220	1,926	434	20,062
Home loans	129,591	34,752	782	14,051	351	179,527
Cards, unsecured loans and other personal lending	28,168	6,792	12,630	3,842	1,283	52,715
Other	8,373	1,871	1,295	6,996	619	19,154
Net loans and advances to customers and banks	242,149	86,140	77,922	42,136	19,917	468,264
Impairment allowance	(2,980)	(2,486)	(654)	(1,079)	(59)	(7,258)
As at 31 December 2012						
Banks	7,134	14,447	12,050	1,806	3,405	38,842
Other financial institutions	17,113	20,812	40,884	4,490	3,031	86,330
Manufacturing	6,041	2,533	1,225	1,232	487	11,518
Construction	3,077	476	1	699	21	4,274
Property	15,167	2,411	677	3,101	247	21,603
Government and central bank	558	2,985	1,012	1,600	253	6,408
Energy and water	2,286	2,365	1,757	821	393	7,622
Wholesale and retail distribution and leisure	9,567	2,463	734	1,748	91	14,603
Business and other services	15,754	2,754	2,360	2,654	630	24,152
Home loans	119,653	36,659	480	14,931	270	171,993
Cards, unsecured loans and other personal lending	29,716	5,887	11,725	7,170	1,147	55,645
Other	9,448	2,390	1,232	7,788	520	21,378
Net loans and advances to customers and banks	235,514	96,182	74,137	48,040	10,495	464,368
Impairment allowance	(3,270)	(2,606)	(472)	(1,381)	(70)	(7,799)

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Loans and advances held at fair value by industry sector and geography

Total loans and advances held at fair value, principally reflecting balances held in the Corporate and Investment Bank, decreased 16.7% to £20.3bn (2012: £24.4bn) primarily reflecting an increase in long term interest rates and paydowns associated with the ESHLA portfolio. A large portion of the total comprises lending to property, government, and business and other services. Property includes lending to the Corporate Real Estate business and to social housing associations.

Loans and advances held at fair value, by industry sector and geography

	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
As at 31 December 2013						
Banks	–	150	72	273	1	496
Other financial institutions ^a	12	782	409	24	42	1,269
Manufacturing	21	41	98	–	6	166
Construction	148	1	–	11	–	160
Property	7,595	766	164	3	–	8,528
Government and central bank	5,288	8	–	98	1	5,395
Energy and water	12	65	465	48	–	590
Wholesale and retail distribution and leisure	40	75	97	53	–	265
Business and other services	2,865	59	261	127	1	3,313
Other	11	27	51	63	8	160
Total	15,992	1,974	1,617	700	59	20,342
As at 31 December 2012						
Banks	–	493	120	422	–	1,035
Other financial institutions	13	611	622	8	39	1,293
Manufacturing	6	38	601	16	15	676
Construction	161	1	–	28	4	194
Property	8,671	830	295	121	–	9,917
Government and central bank	5,762	6	314	17	5	6,104
Energy and water	10	73	41	46	3	173
Wholesale and retail distribution and leisure	33	2	220	72	1	328
Business and other services	3,404	20	685	14	–	4,123
Other	105	132	46	224	56	563
Total	18,165	2,206	2,944	968	123	24,406

Note

a Included within Other financial institutions Americas are £250m (2012: £427m) of loans backed by retail mortgage collateral.

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Credit risk continued

Impairment charges (audited)

Loan impairment charges reduced 7% to £3,062m, reflecting lower charges in Corporate Banking and Africa RBB, partially offset by increased charges across the rest of the Group. Combined with a 1% increase in gross loans and advances, this resulted in a lower overall Group loan loss rate of 64 bps (2012: 70bps; 2011: 77bps).

Credit impairment charges and other provisions by business (audited)			
	2013 £m	2012 £m	2011 £m
Loan impairment			
UK RBB	347	269	536
Europe RBB	287	257	188
Africa RBB	324	632	462
Barclaycard	1,264	1,049	1,312
Investment Bank	209	192	129
Corporate Banking	512	864	1,124
Wealth and Investment Management	121	38	41
Head Office and Other Operations	(2)	2	(2)
Total loan impairment charges^a	3,062	3,303	3,790
Impairment charges on available for sale financial investments (excluding BlackRock, Inc.)	1	40	60
Impairment of reverse repurchase agreements	8	(3)	(48)
Total credit impairment charges and other provisions	3,071	3,340	3,802
Impairment of investment in BlackRock, Inc.	–	–	1,800

Impairment allowances (audited)

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

Movements in allowance for impairment by asset class (audited)								
	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to income statement £m	Balance at 31 December £m
2013								
Home loans	855	–	(38)	(147)	(199)	30	287	788
Credit cards, unsecured and other retail lending	3,780	(5)	(132)	50	(2,050)	123	1,837	3,603
Corporate loans	3,164	–	(9)	(163)	(1,094)	48	921	2,867
Total impairment allowance	7,799	(5)	(179)	(260)	(3,343)	201	3,045	7,258
2012								
Home loans	834	–	(45)	(33)	(382)	24	457	855
Credit cards, unsecured and other retail lending	4,540	(59)	(144)	(248)	(2,102)	119	1,674	3,780
Corporate loans	3,522	(21)	(22)	75	(1,635)	69	1,176	3,164
Total impairment allowance	8,896	(80)	(211)	(206)	(4,119)	212	3,307	7,799

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Note

a Includes charges of £17m (2012: £4m write back; 2011: £24m charge) in respect of undrawn facilities and guarantees.

Impaired loans

The following table represents an analysis of impaired loans in line with the disclosure requirements from the Enhanced Disclosure Taskforce. For further information on definitions of impaired loans refer to the identifying potential credit risk loans section on page 395.

Movement in impaired loans								
	At beginning of year £m	Classified as impaired during the year £m	Transferred to not impaired during the year £m	Repayments £m	Amounts written off £m	Acquisitions and disposals £m	Exchange and other adjustments £m	Balance at 31 December £m
2013								
Home loans	2,207	1,217	(509)	(576)	(230)	–	(126)	1,983
Credit cards, unsecured and other retail lending	3,874	2,449	(168)	(362)	(2,267)	–	(141)	3,385
Wholesale loans	5,666	2,188	(804)	(710)	(1,074)	–	(124)	5,142
Total impaired loans	11,747	5,854	(1,481)	(1,648)	(3,571)	–	(391)	10,510
2012								
Home loans	2,198	1,421	(531)	(512)	(254)	–	(115)	2,207
Credit cards, unsecured and other retail lending	5,024	2,228	(332)	(417)	(2,482)	(59)	(148)	3,874
Wholesale loans	6,349	2,650	(649)	(1,282)	(1,145)	(80)	(177)	5,666
Total impaired loans	13,571	6,359	(1,512)	(2,211)	(3,881)	(139)	(440)	11,747

For information over restructured loans refer to disclosures on forbearance on page 157

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

The following tables present an age analysis of loans and advances that are past due but not impaired and loans that are assessed as impaired. These loans are reflected in the balance sheet credit quality tables on page 150 as being Higher Risk.

Loans and advances past due but not impaired (audited)						
	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m
As at 31 December 2013						
Loans and advances designated at fair value	113	45	9	10	170	347
Home loans	36	5	19	76	51	187
Credit cards, unsecured and other retail lending	103	37	16	56	109	321
Corporate loans	4,210	407	308	248	407	5,580
Total	4,462	494	352	390	737	6,435
As at 31 December 2012						
Loans and advances designated at fair value	108	50	39	19	176	392
Home loans	127	23	48	42	39	279
Credit cards, unsecured and other retail lending	133	6	6	8	35	188
Corporate loans	4,261	471	459	236	427	5,854
Total	4,629	550	552	305	677	6,713

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Credit risk continued

Analysis of loans and advances assessed as impaired (audited)

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

Loans advance assessed as impaired (audited)								
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total	Individually assessed for impairment	Total
As at 31 December 2013								
Home loans	5,726	2,161	667	728	1,818	11,100	510	11,610
Credit cards, unsecured and other retail lending	1,589	1,029	411	632	2,866	6,527	1,548	8,075
Corporate loans	1,047	40	35	59	400	1,581	3,892	5,473
Total	8,362	3,230	1,113	1,419	5,084	19,208	5,950	25,158
As at 31 December 2012								
Home loans	4,649	2,297	650	888	1,964	10,448	783	11,231
Credit cards, unsecured and other retail lending	1,539	938	345	550	2,864	6,236	1,617	7,853
Corporate loans	344	57	46	57	872	1,376	4,010	5,386
Total	6,532	3,292	1,041	1,495	5,700	18,060	6,410	24,470

Potential Credit Risk Loans (PCRLs)

The Group reports potentially and actually impaired loans as PCRLs. PCRLs comprise two categories of loans: Credit Risk Loans (CRLs) and Potential Problem Loans (PPLs). For further information on definitions of CRLs and PPLs refer to the identifying potential credit risk loans section on page 395.

PCRLs and coverage ratios						
	CRLs		PPLs		PCRLs	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Retail ^a	7,567	8,722	708	758	8,275	9,480
Wholesale	5,731	6,303	1,100	1,102	6,831	7,405
Group	13,298	15,025	1,808	1,860	15,106	16,885
	Impairment allowance		CRL coverage		PCRL coverage	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Retail	4,372	4,635	57.8	53.1	52.8	48.9
Wholesale	2,886	3,164	50.4	50.2	42.2	42.7
Group	7,258	7,799	54.6	51.9	48.0	46.2

For more information refer to the Retail Credit risk section, Wholesale Credit risk section and Risk management section.

Note

a 2012 PCRL balances in Africa RBB have been restated to better reflect their PCRL categorisation. As a result CRLs decreased by £99m and PPLs increased by £102m. This has been allocated between Home Loans (CRL: £76m and PPL: £59m) and Other Retail Lending (CRL: £23m and PPL: £43m).

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Forbearance

The following table summaries balances within forbearance programmes across the Group by division.

Analysis of Group balances in forbearance programmes						
As at 31 December	Balances		Impairment stock		Coverage	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 %	2012 %
Retail	5,002	5,447	581	575	11.6	10.6
UK RBB	2,785	2,907	89	96	3.2	3.3
Europe RBB	704	756	60	37	8.5	4.9
Africa RBB	305	481	38	33	12.5	6.9
Barclaycard	1,156	1,237	388	395	33.5	31.9
Corporate Banking ^a	23	34	5	12	22.0	35.4
Wealth and Investment Management	29	32	1	2	3.9	6.0
Wholesale	3,385	4,254	891	1,149	26.3	27.0
Investment Bank	495	846	30	180	6.1	21.3
Corporate Banking ^a	2,003	2,482	777	896	38.8	36.1
Africa RBB	159	243	14	38	8.8	15.6
Wealth and Investment Management	728	683	70	35	9.6	5.1
Group	8,387	9,701	1,472	1,724	17.6	17.8

Wholesale and retail balances in forbearance are reported as a CRL as long as they meet the normal CRL criteria (see identifying potential credit risk loans on page 395). In addition, for card portfolios, all forbearance balances less than 90 days in arrears where revised payments are less than 50% of contractual monthly payments are also included in CRLs.

Further detail can be found in the Retail and Wholesale Credit risk sections on pages 161 to 164 and pages 175 and 176 respectively

Exposure to UK Commercial Real Estate (CRE)

This table details the Group's total exposure to UK CRE split by retail and wholesale lending classification.

Exposure to UK CRE						
As at 31 December	Loans and advances at amortised cost		Balances past due		Impairment allowances	
	2013	2012	2013	2012	2013	2012
Wholesale	9,842	10,036	361	469	110	106
Retail	1,593	1,534	103	123	16	20
Group	11,435	11,570	464	592	126	126

Further detail can be found in the Retail and Wholesale Credit risk sections on pages 172 and 177 respectively

Note

a Primarily comprises UAE retail portfolios in 2013. Includes India portfolios in 2012.

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Credit risk continued

Retail credit risk

Gross loans and advances to customers and banks in the retail portfolios increased 2% to £236.2bn; principally reflecting movements in UK RBB, where a 6% increase to £138bn reflected the acquisition of Barclays Direct and growth in home loans. This was partially offset by a reduction in Africa RBB, principally reflecting currency movements.

The loan impairment charge increased 4% to £2,161m principally the result of:

- UK RBB increased 29% to £347m primarily due to the non-recurrence of releases in 2012 impacting unsecured lending and mortgages. Excluding these, impairment was broadly in line with prior year;
- Barclaycard increased 20% to £1,264m primarily driven by higher assets, including the impact of the acquisition of the Edcon portfolio in late 2012, and the non-recurrence of releases in 2012. Impairment loan loss rates in consumer credit cards remained stable at 356bps (2012: 358bps) in the UK and at 268bps (2012: 268bps) in the US, but increased to 560bps (2012: 160bps) in South Africa;
- Europe RBB increased 12% to £287m due in part to additional charges resulting from decreases in Spanish government subsidies to the renewable energy sector, foreign currency movements and an increase in home loan balances in recoveries. This was partially offset by improvements in underlying collections performance;
- Africa RBB decreased 45% to £259m driven by lower charges in the South African home loans portfolios and foreign currency movements;
- Wealth and Investment Management increased to £9m (2012: nil) driven primarily by losses on Spanish residential property; and
- Corporate Banking decreased to a £5m release (2012: £27m charge) driven by a sharp improvement in residential property values.

Higher overall impairment charges led to an increase in the retail loan loss rate to 91bps (2012: 89bps).

Retail loans and advances at amortised cost

	Gross L&A £m	Impairment allowance £m	L&A net of impairment £m	Credit risk loans £m	CRLs % of gross L&A %	Loan impairment charges £m	Loan loss rates bps
As at 31 December 2013							
UK RBB	138,056	1,308	136,748	2,664	1.9	347	25
Europe RBB	38,016	660	37,356	1,801	4.7	287	75
Africa RBB	19,363	491	18,872	1,026	5.3	259	134
Barclaycard	37,468	1,856	35,612	1,992	5.3	1,264	337
Corporate Banking ^a	488	39	449	45	9.2	(5)	(102)
Wealth and Investment Management	2,828	18	2,810	39	1.4	9	32
Total	236,219	4,372	231,847	7,567	3.2	2,161	91
As at 31 December 2012							
UK RBB	129,682	1,369	128,313	2,883	2.2	269	21
Europe RBB	39,997	560	39,437	1,734	4.3	257	64
Africa RBB	23,987	700	23,287	1,691	7.0	472	197
Barclaycard	35,732	1,911	33,821	2,288	6.4	1,050	294
Corporate Banking ^a	739	79	660	92	12.4	27	365
Wealth and Investment Management	2,535	16	2,519	34	1.3	–	–
Total	232,672	4,635	228,037	8,722	3.7	2,075	89

Note

a Primarily comprises UAE retail portfolios in 2013. Includes India portfolios in 2012 that were predominantly disposed of in 2013.

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Analysis of retail gross loans and advances					
	Secured home loans ^a £m	Credit cards, overdrafts and unsecured loans £m	Other secured retail lending ^b £m	Business lending £m	Total retail £m
As at 31 December 2013					
UK RBB	122,879	6,854	–	8,323	138,056
Europe RBB	33,615	2,870	–	1,531	38,016
Africa RBB	13,664	2,469	2,584	646	19,363
Barclaycard	–	34,276	2,487	705	37,468
Corporate Banking	252	199	30	7	488
Wealth and Investment Management	2,575	91	162	–	2,828
Total	172,985	46,759	5,263	11,212	236,219
As at 31 December 2012					
UK RBB	114,766	6,863	–	8,053	129,682
Europe RBB	34,825	3,430	–	1,742	39,997
Africa RBB	17,422	2,792	3,086	687	23,987
Barclaycard	–	32,432	2,730	570	35,732
Corporate Banking	274	336	117	12	739
Wealth and Investment Management	2,267	63	205	–	2,535
Total	169,554	45,916	6,138	11,064	232,672

Secured home loans and credit cards, overdrafts and unsecured loans are analysed on pages 165 and 169, respectively.

Management adjustments to models for impairment

Management adjustments to models for impairment in retail portfolios are applied in order to factor in certain conditions or changes in policy that are not incorporated into the relevant impairment models or to ensure that the impairment allowance reflects all known facts and circumstances at the period end. Adjustments typically increase the model derived impairment allowance.

Management adjustments to models of more than £10m with respect to impairment charge in our principal retail portfolios are presented below.

Principal portfolios with management adjustments greater than £10m		
	Management adjustments to impairment charge, including forbearance £m	Proportion of total impairment charge %
As at 31 December 2013		
UK home loans	13	61.9
South Africa home loans	11	10.7
UK personal loans	20	13.7
UK overdrafts	10	14.3
Iberia cards	12	14.1
Spain business lending	25	40.1

The significant management adjustments to impairment were due to:

- UK home loans – higher impairment allowances reflecting the external environment;
- South Africa home loans – maintaining impairment coverage on the recoveries book following a reduction in the loss given default rate;
- UK personal loans – impacts from changes to the impairment policy for emergence periods, forbearance and high risk pending their inclusion into the impairment models;
- UK overdraft – additional coverage for dormant accounts together with changes to the impairment policy for emergence periods, forbearance and high risk pending inclusion into the impairment models;
- Iberia cards – impacts from changes to impairment policy for emergence periods forbearance and high risk pending their inclusion into the impairment models; and
- Spain business lending – additional charges resulting from decreases in subsidies to the renewable energy sector in Spain.

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Notes

- a All portfolios under secured home loans are primarily first lien mortgages. Other secured retail lending under Barclaycard is a second lien mortgage portfolio.
- b Other secured retail lending includes vehicle auto finance in Africa RBB and UK secured lending in Barclaycard.

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Credit risk continued

Potential Credit Risk Loans and coverage ratios

PCRLs and coverage ratios						
	CRLs		PPLs		PCRLs	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Home loans	2,803	3,321	316	321	3,119	3,642
Credit cards and unsecured lending	3,468	3,954	279	295	3,747	4,249
Other retail lending and business banking	1,296	1,447	113	142	1,409	1,589
Total retail^a	7,567	8,722	708	758	8,275	9,480

	Impairment allowance		CRL coverage		PCRL coverage	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Home loans	776	849	27.7	25.6	24.9	23.3
Credit cards and unsecured lending	3,026	3,212	87.3	81.2	80.8	75.6
Other retail lending and business banking	570	574	44.0	39.7	40.5	36.1
Total retail	4,372	4,635	57.8	53.1	52.8	48.9

PCRLs and coverage ratios by business

	CRLs		PPLs		PCRLs	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
UK RBB	2,664	2,883	239	283	2,903	3,166
Europe RBB	1,801	1,734	73	98	1,874	1,832
Africa RBB ^a	1,026	1,691	153	163	1,179	1,854
Barclaycard	1,992	2,288	239	208	2,231	2,496
Corporate Banking	45	92	2	5	47	97
Wealth and Investment Management	39	34	2	1	41	35
Total retail	7,567	8,722	708	758	8,275	9,480

	Impairment allowance		CRL coverage		PCRL coverage	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
UK RBB	1,308	1,369	49.1	47.5	45.1	43.2
Europe RBB	660	560	36.6	32.3	35.2	30.6
Africa RBB	491	700	47.9	41.4	41.6	37.8
Barclaycard	1,856	1,911	93.2	83.5	83.2	76.6
Corporate Banking	39	79	86.7	85.9	83.0	81.4
Wealth and Investment Management	18	16	46.2	47.1	43.9	45.7
Total retail	4,372	4,635	57.8	53.1	52.8	48.9

CRL balances in retail portfolios decreased 13.2% to £7,567m. This is primarily driven by Africa RBB and the associated

depreciation of ZAR against GBP and the reduction in the recovery book in South Africa home loans. The reduction in UK RBB reflected higher cash recoveries in Business Banking and lower flows into recovery in Consumer Lending. The reduction in Barclaycard reflected lower balances in recovery across the principal portfolios. The CRL decrease was partially offset by higher balances in Europe RBB, primarily due to appreciation of EUR against GBP and an increase in recovery balances across all home loans portfolios.

Note

- a 2012 PCRL balances in Africa RBB have been restated to better reflect their PCRL categorisation. As a result PCRL balances increased by £3m; CRLs decreased by £99m; and PPLs increased by £102m. This has been allocated between Home Loans (CRL: £76m and PPL: £59m) and Other Retail Lending (CRL: £23m and PPL: £43m).

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Retail forbearance programmes
Forbearance programmes on principal credit cards, overdrafts, unsecured loans, home loans and business lending portfolios

Retail forbearance is available to customers experiencing financial difficulties. Forbearance solutions may take a number of forms depending on the extent of the financial dislocation. Short term solutions normally focus on temporary reductions to contractual payments and switches from capital and interest payments to interest only. For customers with longer term financial difficulties, term extensions may be offered, which may also include interest rate concessions and fully amortising balances for card portfolios.

Forbearance on the Group's principal portfolios in the US, UK, Eurozone and South Africa is presented below. The principal portfolios listed below account for 93% (2012: 94%) of total retail forbearance balances.

Analysis of key portfolios in forbearance programmes									
	Balances on forbearance programmes					Marked to market LTV of forbearance balances: balance weighted %	Marked to market LTV of forbearance balances: valuation weighted %	Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
	Total £m	gross L&A %	Up-to-date £m	of which:					
				Past due of which:					
				1-90 days past due £m	91 or more days past due £m				
As at 31 December 2013									
Home Loans									
UK	2,364	1.9	1,867	313	184	63.4	51.6	23	1.0
South Africa	248	2.1	117	115	16	74.4	60.5	17	6.9
Spain	171	1.4	124	36	11	68.3	52.3	8	4.9
Italy	307	2.0	248	31	28	62.2	50.9	10	3.2
Credit Cards									
UK	912	5.6	861	44	7	n/a	n/a	333	36.5
US	106	1.1	73	24	9	n/a	n/a	10	9.8
Unsecured Loans									
UK	142	2.9	94	40	8	n/a	n/a	34	23.7
As at 31 December 2012									
Home Loans									
UK	2,536	2.2	1,961	391	184	67.7	56.1	24	0.9
South Africa	404	2.6	170	164	70	78.3	64.7	16	4.0
Spain	174	1.3	118	45	11	68.9	53.3	10	5.7
Italy	426	2.6	391	20	15	62.6	52.2	7	1.7
Credit Cards									
UK	991	6.3	927	56	8	n/a	n/a	350	35.3
US	116	1.3	77	29	10	n/a	n/a	15	12.9
Unsecured Loans									
UK	168	3.4	113	42	13	n/a	n/a	44	26.2

Loans in forbearance in the principal home loans portfolios decreased 13% to £3,090m primarily due to decreases in UK, South Africa and Italy.

- The UK home loans under forbearance programmes decreased 7% to £2,364m. In H213, the definition was expanded to include customers who are up to date on their mortgage but have either been granted a term extension or have drawn against their Mortgage Current Account and displayed other indicators of financial stress. 2012 forbearance balances were restated from £1,596m to £2,536m in line with the new definition. As a result of the restatement, Mortgage Current Account balances (see page 169) now account for 71% of the total forbearance balances, the majority of the remainder being term extensions which account for 17%. Total past due balances reduced 14% to £497m due to improved collections procedures.
- In South Africa, the reduction in forbearance balances is due to the implementation of enhanced qualification criteria which results in a more appropriate and sustainable programme for the customer, and a depreciation of ZAR against GBP.
- In Italy, the majority of the balances relate to specific schemes required by the government, including schemes in response to natural disasters and amendments are primarily payment holidays and interest suspensions. The decrease of 28% to £307m

is in part due to customers exiting such government forbearance schemes after recommencing payments. The coverage for forbearance accounts remains low, at 3.2% (2012: 1.7%) reflecting the underlying quality of customers on these government schemes, with 85% of customers being up-to-date upon entering the forbearance schemes for natural disasters.

Forbearance balances on principal credit cards, overdrafts and unsecured loan portfolios decreased by 9% to £1,160m. Forbearance programmes as a proportion of outstanding balances reduced in UK and US cards due to better payment rates arising from an improved credit environment.

- In UK Cards, Repayment Plans which account for majority of the forbearance balances exit forbearance treatment when they are more than 60 days past due. The small residual balance reported as >90 days past due relates to accounts that remain on legacy terms and conditions. Impairment allowances against UK cards forbearance decreased following a review of the qualification criteria in the forbearance policy, the impacts of which became evident from Q2 2013. This included a reduction of balances on forbearance programmes and better performance resulting in a decrease in impairment coverage ratio.
- US cards forbearance programme coverage ratio was lower than the UK due to the nature of the customer mix (partnership focused) and the type of forbearance, where long-term fully amortising forbearance plans make up over 50% of all forborne accounts. These plans have lower loss rates compared to the UK and carry lower levels of impairment driven by higher payment success rates compared with the UK.

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Credit risk continued

Business lending

As at 31 December 2013	Balances on forbearance programmes: arrears managed					Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
	Total £m	% of gross L&A %	of which:				
			Past due of which:				
			Up-to-date £m	1-90 days past due £m	91 or more days past due £m		
UK	49	0.6	25	4	20	12.1	24.7
Spain	4	0.4	3	1	–	0.2	5.7
Portugal	8	1.8	7	1	–	1.9	23.3

As at 31 December 2013	Balances on forbearance programmes: EWL managed				Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
	Total £m	% of gross L&A %	of which:			
			Performing balances £m	Non-performing balances £m		
			£m	£m		
UK	229	2.7	159	70	19.9	8.7
Spain	122	11.9	116	6	25.0	20.5
Portugal	9	1.9	9	–	2.2	25.9

As at 31 December 2013	Balances on forbearance programmes £m	% of gross L&A %	Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
UK	278	3.3	32.0	11.5
Spain	126	12.3	25.2	20.0
Portugal	17	3.7	4.1	24.6

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As at 31 December 2012	Balances on forbearance programmes: arrears managed					Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
	Total £m	% of gross L&A %	Up-to-date £m	of which:			
				Past due of which:			
				1-90 days past due £m	91 or more days past due £m		
UK	60	0.7	26	8	26	15.6	26.4
Spain	4	0.5	3	1	—	0.3	7.5
Portugal	7	1.2	2	1	4	0.6	9.5

As at 31 December 2012	Balances on forbearance programmes: EWL managed					Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
	Total £m	% of gross L&A %	Performing balances £m	of which:			
				Past due of which:			
				Non-performing balances £m			
UK	143	1.8	89	54	12.4	8.7	
Spain	79	7.1	75	4	8.4	10.6	
Portugal	3	0.4	2	1	0.6	21.0	

As at 31 December 2012	Balances on forbearance programmes £m		% of gross L&A %	Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %
UK	203	2.5	28.0	13.8	
Spain	83	7.6	8.7	10.5	
Portugal	10	1.6	1.2	12.8	

Total business lending forbearance balances in the UK increased 37% to £278m due to the monitoring of customers under forbearance for a longer period before they are recategorised as performing, and an increase in customers being granted forbearance while a review of their derivative position is being undertaken. Non-performing balances increased 13% to £90m, with a significant proportion of customers operating within the terms of their amended terms and conditions.

The relatively low total balances on forbearance coverage ratio of 8.7% (2012: 8.7%) for UK business lending EWL managed balances principally reflects focus on obtaining good quality collateral/security for secured deals.

Balances in Spain and Portugal increased 55% to £144m primarily due to the restructuring of facilities for EWL managed customers including loans to the renewable energy sector in Spain due to the reduction in government subsidies to this sector. Impairment coverage increased in Spain reflecting the additional charges taken against loans to the renewable energy sector.

Forbearance by type

Home loans

- Interest-only conversions: A temporary change from a capital and interest repayment to an interest-only repayment, for a maximum of 24 months.
- Interest rate reductions: A temporary reduction in interest rate, for a maximum of 12 months.
- Payment concessions: An agreement to temporarily accept reduced loan repayments, for a maximum of 24 months.
- Term extensions: A permanent extension to the loan maturity date which may involve a reduction in interest rates, and usually involves the capitalisation of arrears.

Credit cards and unsecured loans

- Payment concessions (loans only): An agreement to temporarily accept reduced loan repayments, for a maximum of 12 months.
- Term extensions (loans only): A permanent extension to the loan maturity date, usually involving the capitalisation of arrears.
- Repayment plans (cards only): A temporary reduction in the minimum payment due, for a maximum of 60 months. This may involve a reduction in interest rates to prevent negative amortisation.
- Fully amortising (cards and loans): A permanent conversion of the outstanding balance into a fully amortising loan, over a maximum period of 60 months for cards and 120 months for loans.

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Credit risk continued

Forebearance by type				
	Home loans			
	UK £m	Spain £m	Italy ^a %	South Africa %
As at 31 December 2013				
Interest only conversion	135	8	–	–
Interest rate reduction	–	78	–	2
Payment concession	160	–	144	187
Term extension	413	85	163	59
Other	1,656	–	–	–
Total	2,364	171	307	248
As at 31 December 2012				
Interest only conversion	153	14	–	–
Interest rate reduction	–	74	–	9
Payment concession	173	–	295	236
Term extension	371	87	131	159
Other	1,839	–	–	–
Total	2,536	175	426	404
	Credit cards and unsecured loans			
	UK cards £m	US cards £m	UK personal loans %	
As at 31 December 2013				
Payment concession	63	–	1	
Term extension	–	–	31	
Fully amortising	–	56	110	
Repayment plan	833	50	–	
Other	16	–	–	
Total	912	106	142	
As at 31 December 2012				
Payment concession	74	–	7	
Term extension	–	–	34	
Fully amortising	–	60	127	
Repayment plan	900	56	–	
Other	17	–	–	
Total	991	116	168	

Forbearance balances for UK home loans classified as 'Other' relates to Mortgage Current Accounts where the customer has drawn against available reserve, and displayed other indicators of financial stress. Term extensions made up 23% (2012: 21%) of home loan forbearance balances across principal portfolios.

In UK cards, Other represents legacy rehabilitated repayment plan accounts that have continued to be included and tracked as forbearance given their continued interest rate concessions.

Notes

- a In Italy, payment concessions include plans where the customer has been extended a payment holiday and may be converted to a term extension once the agreed period is completed.

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Portfolio reviews

Secured home loans

Total home loans to retail customers represented 73% (2012: 73%) of the Group's total retail balances. Home loan balances increased 2% to £173bn.

The principal home loan portfolios listed below account for 97% (2012: 96%) of total home loans in the Group's retail portfolios.

Home loans principal portfolios ^a						
	Gross loans and advances £m	> 90 day arrears %	> 90 day arrears, including recoveries ^b %	Annualised gross charge-off rates ^c %	Recoveries proportion of outstanding balances %	Recoveries impairment coverage ratio %
As at 31 December 2013						
UK	122,880	0.3	0.8	0.5	0.5	14.7
South Africa	12,172	0.7	6.2	2.6	5.6	34.7
Spain	12,748	0.7	3.0	1.1	2.4	36.0
Italy	15,518	1.1	3.5	0.7	2.4	25.8
Portugal	3,641	0.5	3.9	1.1	3.4	31.9
As at 31 December 2012						
UK	114,766	0.3	0.8	0.6	0.5	13.4
South Africa	15,773	1.6	8.4	3.9	6.9	34.6
Spain	13,551	0.7	2.6	1.1	1.9	34.0
Italy	15,529	1.0	2.9	0.8	1.8	25.4
Portugal	3,710	0.7	3.4	1.4	2.8	25.6

Arrears rates remained steady in the UK due to a conservative credit policy and stable economic conditions including the continued low base rate environment. The recoveries impairment coverage ratio increased reflecting a delay in impairment releases while the business assesses the changing environment conditions.

In the UK, gross loans and advances increased 7% to £123bn which includes £5.4bn of balances at acquisition from the Barclays Direct (formerly ING Direct) mortgage portfolio in February 2013. Within the total home loans portfolio:

- Owner-occupied^d interest-only balances of £44.5bn (2012: £45.7bn) represented 36% of total home loan balances (see page 168 for more detail). The average balance weighted LTV for interest-only balances remained low at 54.2% (2012: 58.8%) and 90 day arrears rates remained stable at 30bps (2012: 30bps) which was in line with the overall portfolio performance; and
- Buy-to-let^e home loans comprised 8% (2012: 7%) of the total balances. For buy-to-let home loans, 90 day arrears rates improved marginally from 0.2% to 0.1% while balance weighted portfolio LTV remained broadly stable at 62.9% (2012: 65.7%).

Gross loans and advances in South Africa of £12.2bn (2012: £15.8bn) were broadly unchanged in local currency. The improvement in the arrears and charge-off rates was driven by the continued strong performance of new lending and improvements in collections capabilities. The decrease in recoveries balances was driven by revised strategies in the recoveries environment to reduce this portfolio, and lower charge-off rates.

In the principal European home loans portfolios, gross loans and advances reduced 3% to £31.9bn reflecting the amortisation of existing balances and reduced new business flows following the realignment of our target Europe RBB customer profile (see page 14 for further detail). 90 day arrears rates and charge-off rates have remained broadly stable in Spain and Italy, but have reduced in Portugal due to improved collections performance.

- Balances in recoveries and recovery impairment coverage rates have increased in Spain in part due to an increase in the legal recovery timescales following introduction of new Spanish mortgage protection laws. The lengthy legal process in Europe and difficult property market conditions have contributed to the increased recovery balances and higher impairment coverage ratios.

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Notes

- a Excluded from the above analysis are Wealth International home loans, which are managed on an individual customer exposure basis, France home loans and other small home loans portfolios. All portfolios under Secured Home Loans are primarily first lien mortgages. Other Secured Retail Lending under Barclaycard is a second lien mortgage portfolio.
- b 90 day arrears including recoveries is the sum of balances greater than 90 day arrears and balances charged off to recoveries, expressed as a percentage of total outstanding balances.
- c Gross charge-off rates are calculated over average monthly outstanding balances through the year.
- d Owner-occupied refers to mortgages where the intention of the customer was to occupy the property at origination.
- e Buy to let refers to mortgages where the intention of the customer (investor) was to let the property at origination.

Risk review >

Credit risk continued

Home loans principal portfolios – distribution of balances by LTV (updated valuations) ^a										
	UK		South Africa		Spain		Italy		Portugal	
	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
As at 31 December										
<=75%	84.2	76.1	69.6	62.8	65.9	64.2	74.9	74.3	42.3	40.3
>75% and <=80%	6.9	9.2	8.8	9.0	6.6	6.5	14.2	16.0	8.6	8.3
>80% and <=85%	3.4	5.4	7.1	8.2	6.1	6.1	6.0	5.5	11.7	10.6
>85% and <=90%	2.1	3.3	4.8	6.4	5.5	5.5	1.8	1.4	12.1	11.1
>90% and <=95%	1.3	2.2	3.3	4.0	4.5	4.4	0.9	0.9	9.0	10.2
>95% and <=100%	0.8	1.4	1.9	2.8	3.3	3.3	0.6	0.6	7.3	7.6
>100%	1.3	2.4	4.5	6.8	8.1	10.0	1.6	1.3	9.0	11.9
Portfolio Marked to market LTV:										
Balance weighted %	56.3	59.1	62.3	65.6	63.4	64.6	60.0	59.6	76.4	77.6
Valuation weighted %	43.6	45.5	42.1	44.2	44.8	45.4	46.5	46.7	66.2	67.7
Performing Balances:										
Balance weighted %	56.2	59.0	60.5	62.9	62.2	63.6	58.6	58.7	75.1	76.7
Valuation weighted %	43.5	45.5	41.1	42.6	44.7	45.3	46.5	46.6	66.1	67.6
Non-performing Balances:										
Balance weighted %	68.9	72.7	92.9	95.8	103.3	100.9	98.8	90.2	79.2	83.2
Valuation weighted %	55.1	58.6	71.4	77.9	60.6	61.5	53.1	54.2	74.3	80.3
For >100% LTVs:										
Balances £m	1,596	2,698	540	1,064	1,027	1,343	244	203	324	440
Marked to market collateral £m	1,411	2,478	452	898	864	1,136	191	167	294	405
Average LTV: balance weighted %	120.5	112.3	123.1	121.7	118.0	118.1	151.1	137.0	113.7	110.7
Average LTV: valuation weighted %	113.2	108.9	119.5	118.4	118.8	118.2	128.2	121.1	110.1	108.5
% of balances in recoveries	3.2	2.6	45.6	46.2	18.6	12.0	62.1	51.2	20.8	12.5

Credit quality of the principal home loan portfolios reflected relatively conservative levels of high LTV new lending and moderate LTV on existing portfolios.

During 2013, the average balanced weighted portfolio LTV in the UK decreased to 56.3% (2012: 59.1%) primarily due to appreciating house prices.

For >100% LTV, with the exception of Italy, balances decreased during 2013:

- In the UK, balances were 41% lower at £1,596m, partly driven by appreciating house prices. However, the average balance weighted LTV for the same period increased due to the remaining balances having higher LTVs than those paid down;
- In South Africa, the 49% reduction in the balances to £540m (2012: £1,064m) was driven by a reduction in the recoveries book and an appreciation in house prices;
- In Spain and Portugal, the balances decreased by 24% and 26%, respectively due to the increasing levels of repossessions where the assets are now held as 'Other Real Estate Owned' (see page 167 Foreclosures in process and properties in possession); and
- In Italy, the balances increased by 20% due to the falling property prices and court set auction valuations for properties going through the lengthy repossession process (see section 'Foreclosures in process and properties in possession').

Note

- a Portfolio marked to market based on the most updated valuation including recoveries balances. Updated valuations reflect the application of the latest house price index available in the country as at 31 December 2013. Valuation weighted LTV is the ratio between total outstanding balances and the value of total collateral held against these balances. Balance weighted LTV approach is derived by calculating individual LTVs at account level and weighting by the individual loan balances to arrive at the average position.

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Home loans principal portfolios – new lending										
As at 31 December	UK		South Africa		Spain		Italy		Portugal ^a	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
New bookings £m	17,100	18,170	1,209	1,186	277	284	494	848	20	83
New mortgages proportion above 85% LTV (%)	3.8	3.9 ^b	30.4	36.8	1.8	4.1	–	–	15.6	4.9
Average LTV on new mortgages: balance weighted (%)	64.2	64.6	74.9	76.1	61.7	62.8	59.8	62.8	64.8	60.8
Average LTV on new mortgages: valuation weighted (%)	57.1	57.4 ^b	64.9	64.7	52.9	55.8	52.2	55.4	54.2	56.7

New bookings in UK decreased 6% to £17.1bn. The decrease in average balance weighted LTV in the UK to 64.2% (2012: 64.6%) was driven by an increased proportion of lower LTV origination.

In South Africa, new home loans above 85% LTV decreased to 30.4% (2012: 36.8%) due to an increase of new bookings in the 80-85% LTV band, the average LTV remained broadly unchanged.

New bookings in Spain, Italy and Portugal reduced 35% to £791m due to changes to business strategy, a tightening of the standard LTV credit criteria and active management to reduce funding mismatch. Average balance weighted LTV on new mortgages remained stable across these jurisdictions reflecting these credit criteria.

The proportion of new home loans above 85% LTV in Spain has decreased, and now primarily reflects lending to customers to finance the purchase of properties which were previously repossessed by the Bank and held as 'Other Real Estate Owned' (see Foreclosures in process and properties in possession below).

Foreclosures in process and properties in possession

Foreclosure is the process by which the bank initiates legal action against a customer with the intention of terminating a loan agreement whereby the bank may repossess the property subject to local law and recover amounts it is owed. This process can be initiated by the bank independent of the impairment treatment and it is therefore possible that the foreclosure process may be initiated while the account is still in Collections (delinquent) or in Recoveries (post charge-off) where the customer has not agreed a satisfactory repayment schedule with the bank.

Properties in possession include properties held as 'Loans and Advances to Customers' and properties held as 'Other Real Estate Owned'.

Held as 'Loans and Advances to Customers' (UK and Italy) refer to the properties where the customer continues to retain legal title but where the bank has enforced the possession order as part of the foreclosure process to allow for the disposal of the asset or the court has ordered the auction of the property.

Held as 'Other Real Estate Owned' (South Africa, Spain and Portugal) refers to properties where the bank has taken legal ownership of the title as a result of purchase at an auction or similar and treated as 'Other Real Estate Owned' within other assets on the bank's balance sheet.

Home loans principal portfolios				
As at 31 December 2013	Foreclosures in process		Properties in possession	
	number	£m	number	£m
UK	1,835	254	157	22
South Africa	10,161	484	398	5
Spain	1,560	236	1,305	93
Italy ^c	3,782	371	504	64
Portugal ^d	2,086	137	540	50
As at 31 December 2012				
UK	1,612	203	234	33
South Africa	12,145	778	1,314	27
Spain	1,396	194	945	117
Italy	2,888	283	436	58
Portugal ^d	1,506	110	336	45

In UK Home Loans, foreclosure in process increased 14% to 1,835 in 2013. This increase includes customers where contact and formal agreement of payment plans for arrears is still to be achieved. On average, 22% of customers in foreclosures in process made a monthly repayment which was less than the monthly contractual payment. 31% of customers in Recovery have recommenced full contractual payments as a minimum, and the foreclosure process for these customers are in temporary suspension pending agreement on the arrears.

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Notes

- a The proportion of new home loans above 85% LTV in Portugal includes home loans to restructure customer existing home loans, with no increase in exposure.
- b Figures were restated following a detailed review of the LTVs post-migration to a new data management system.
- c In Italy, customers continue to retain legal title of the property after the court has ordered an auction. These are classified as properties in possession and excluded from foreclosures in process.
- d In Portugal, properties in possession is based on the number of associated mortgage contracts.

Risk review >

Credit risk continued

The properties in possession portfolio in South Africa is comprised entirely of 'Other Real Estate Owned'. The reduction in 2013 is due to a more cautious approach adopted for taking ownership of properties at auction when the reserve price is not met, and improved sale processes for existing properties.

Foreclosures in process in the European mortgage portfolios increased driven by the continuing charge-offs. Foreclosures in process and property in possession stocks are increasing and are impacted by the increasing time to reposess and sell property.

Exposures to interest-only home loans

The Group provides interest-only mortgages to customers, mainly in the UK. Under the terms of these loans, the customer makes payments of interest only for the entire term of the mortgage, although customers may make early repayments of the principal within the terms of their agreement.

Subject to such early repayments, the entire principal remains outstanding until the end of the loan term and the customer is responsible for repaying this on maturity. The means of repayment may include the sale of the mortgaged property.

Interest-only lending is subject to bespoke underwriting criteria that includes: a maximum size of loan, maximum LTV ratios, affordability and maximum loan term amongst other criteria. Borrowers on interest-only terms must have a repayment strategy in place to repay the loan at maturity and a customer contact strategy has been developed to ensure ongoing communications are in place with interest-only customers at various points during the term of the mortgage. The contact strategy is varied dependent on our view of the risk of the customer.

Interest-only mortgages comprise £53bn (2012: £53bn) of the total £123bn (2012: £115bn) UK home loans portfolio. Of these, £45bn (2012: £46bn) are owner-occupied with the remaining £8bn (2012: £7bn) buy-to-let.

Exposure to interest only owner-occupied home loans		
As at 31 December	2013	2012
Interest-only balances (£m) ^a	44,543	45,746
Of which: ^b		
Performing balances	37,050	37,919
Non-performing balances	218	239
90 day arrears (%)	0.3	0.3
Total impairment coverage (bps)	2	3
Marked-to-market LTV:		
Balance weighted %	54.2	58.8
Valuation weighted %	42.4	45.1
Marked-to-market LTV: Performing balances		
Balance weighted %	55.0	58.7
Valuation weighted %	42.3	45.1
Marked-to-market LTV: Non-performing balances		
Balance weighted %	71.7	74.1
Valuation weighted %	56.5	59.0
For >100% LTVs:		
Balances £m	765	1,239
Marked-to-market collateral £m	669	1,133
Interest-only home loans maturity years:		
2014	812	877
2015	875	985
2016	1,183	1,324
2017	1,582	1,707
2018	1,659	1,763
2019-2023	8,815	9,138
Post 2023	29,466	29,057

The average balance weighted LTV for interest only owner-occupied balances reduced to 54.2% (2012: 58.8%) driven by appreciating property prices.

Total impairment coverage at 2bps (2012: 3bps) is broadly in line with overall portfolio performance and highlights improvement

year on year as a result of portfolio quality.

Notes

- a Includes forbore interest-only loans. 2013 balances include the impact of the acquisition of Barclays Direct. Balances also include the interest only portion of the Part and Part UK owner-occupied portfolio. A Part and Part Home Loan is a product in which part of the loan is interest only and part is amortising.
- b Performing and non-performing balances do not include the interest only portion of the Part and Part book which is £7,725m (2012: £7,587m).

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Exposures to Mortgage Current Accounts (MCA) reserves

MCA reserve is a secured overdraft facility available to home loan customers which allows them to borrow against the equity in their home. It allows draw-down up to an agreed available limit on a separate but connected account to the main mortgage loan facility. The balance drawn must be repaid on redemption of the mortgage.

Of total 953,000 home loan customers in the UK, 573,000 have MCA reserves, with total reserve limits of £18.3bn.

Exposure to Mortgage Current Accounts reserves (UK)		
As at 31 December	2013	2012
Total outstanding of home loans with MCA reserve balances (£bn)	72.7	82.2
Home loan customers with active reserves (000s)	573	638
Proportion of outstanding UK home loan balances (%)	59.2	71.6
Total reserve limits (£bn)	18.3	18.5
Utilisation rate (%)	31.9	30.9
Marked to market LTV: Balance weighted (%)	53.9	57.7

While the MCA reserve was withdrawn from sale in December 2012, existing customers can continue to draw down against their available reserve limit (£12.5bn of undrawn limits as at December 2013).

The total overall home loans balances for customers who have a current account reserve has reduced by 12% to £72.7bn primarily due to amortising payments on the main mortgage account. The average marked to market LTV has reduced to 53.9% (2012: 57.7%) reflecting increasing house prices and paydown of the main mortgage loan.

Credit cards, overdrafts and unsecured loans

The principal portfolios listed below account for 91% (2012: 90%) of total credit cards, overdrafts and unsecured loans in the Group's retail portfolios.

Principal portfolios

	Gross loans and advances £m	30 day arrears %	90 day arrears %	Annualised gross charge-off rates ^c %	Recoveries proportion of outstanding balances %	Recoveries impairment coverage ratio %
As at 31 December 2013						
UK cards	15,937	2.4	1.1	4.4	4.6	86.2
US cards	10,301	2.1	1.0	4.0	1.8	86.6
UK personal loans	4,958	2.7	1.2	4.6	15.8	79.4
Barclays Partner Finance	2,499	1.6	0.8	2.9	3.2	83.2
South Africa cards ^a	2,224	8.1	4.3	7.3	5.1	70.7
Germany cards	2,169	2.5	1.0	3.7	2.9	81.9
UK overdrafts	1,307	4.8	3.3	7.6	14.5	94.5
Italy salary advance loans ^b	1,008	2.2	1.0	7.9	13.8	18.8
Iberia cards	1,139	5.3	2.3	9.9	9.2	84.6
South Africa personal loans	906	5.4	2.6	7.9	7.4	70.4
As at 31 December 2012						
UK cards	15,434	2.5	1.1	4.9	6.2	80.4
US cards	9,296	2.4	1.1	5.0	2.3	90.7
UK personal loans	4,861	3.0	1.3	5.1	17.4	78.9
South Africa cards ^a	2,511	7.4	3.9	4.7	4.7	70.9
Barclays Partner Finance	2,323	1.9	1.0	3.9	4.8	78.1
Germany cards	1,778	2.5	0.9	3.6	3.2	79.4
UK overdrafts	1,382	5.3	3.5	8.2	14.6	92.7
Italy salary advance loans ^b	1,354	2.3	0.9	8.4	9.4	12.5
Iberia cards	1,140	7.5	3.5	9.6	12.4	88.2
South Africa personal loans	1,061	5.6	3.1	8.5	7.6	72.3

Gross loans and advances in credit cards, overdrafts and unsecured loans increased 2% to £47bn with increases in UK and US card portfolios, Germany cards and Barclays Partner Finance being offset by decreases in Italy salary advance loans, South Africa cards and UK overdrafts. With the exception of South Africa cards, arrears rates remained broadly stable.

Notes

a South Africa cards now includes the acquired Edcon portfolio in both 2012 (reflected partially for a 2 month period) and 2013 figures. The outstanding acquired balances have been excluded from the recoveries impairment coverage ratio on the basis that the portfolio has been recognised on acquisition at fair value during 2012 (with no related impairment allowance). Impairment allowances have been recognised as appropriate where these relate to the period post acquisition.

b The recoveries impairment coverage ratio for Italy salary advance loans is lower than unsecured portfolios as these loans are extended to customers

- where the repayment is made via a salary deduction at source by qualifying employers often through third-party payment collection companies and Barclays is insured in the event of termination of employment or death.
- c Gross charge-off rates are calculated over average monthly outstanding balances through the year.

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Risk review >

Credit risk continued

Recovery coverage increased significantly for UK cards, while the proportion of recovery balances was lower. This was driven by increased debt sale activity which also resulted in a lower recovery expectation across the remaining recovery book, thereby resulting in a higher impairment requirement.

Significant improvement in US cards arrears rates was driven by a targeted strategy focused on growth in high quality customers and low-risk Partnerships.

In the UK personal loans arrears rates reduced due to the improved performance of new bookings following changes to credit criteria.

In South Africa cards, delinquency and charge-off rates deterioration reflected the change in product mix following the acquisition of the Edcon portfolio in late 2012, maturing vintages and portfolio seasoning. Charge-off rates excluding Edcon would be 4.9% for 2013 (2012: 4.2%).

The Italy salary advance loans portfolio was closed to new business in August 2012, and the increasing proportion of outstanding balances in recovery primarily reflects the reduction in loans and advances.

Iberia cards portfolios showed improved arrears rates, notably during the second half of 2013 reflecting the tightening of credit risk strategies through the recessionary period, combined with the non-recurrence of one-off events in 2012 which included challenges in migrating to a new card management system and enhancing some collections tools.

Re-age activity

Re-age is applicable only to revolving products where a minimum due payment is required. Re-age refers to returning of a delinquent account to up-to-date status without collecting the full arrears (principal, interest and fees). The changes in timing of cash flows following re-aging do not result in any additional cost to Barclays. The following are the principal portfolios in which re-age activity occurs.

Principal portfolios						
	Re-aged balances in total outstanding, excluding recoveries balances		Re-aged balances as proportion of total outstanding, excluding recoveries balances		30 day arrears of re-aged balances at 12 months on book ^a	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
As at 31 December 2013						
UK cards	209	232	1.3	1.6	14.0	17.2
US cards	88	96	0.9	1.1	12.8	13.8

Re-aged balances as a percentage of total outstanding, excluding recoveries balances decreased in the UK cards portfolios. The decrease in US cards has been driven by improved ability of customers to self cure from a position of delinquency. The re-age activity in South Africa and Europe RBB cards portfolios are not considered to be material.

For further detail on policy relating to the re-aging of loans, please refer to the Risk Management section on page 402.

Other secured retail lending

The principal portfolio listed below accounts for 48% (2012: 50%) of total other secured retail lending loans in the Group's retail portfolios. The balances have reduced reflecting foreign currency movements.

Principal portfolios						
	Gross loans and advances	30 day arrears	90 day arrears	Annualised gross charge-off rates ^b	Recoveries proportion of outstanding balances	Recoveries impairment coverage ratio
	£m	£m	£m	£m	£m	£m
South Africa auto loans						
As at 31 December 2013	2,546	1.6	0.4	3.2	1.9	51.6
As at 31 December 2012	3,081	2.0	0.7	3.6	3.0	57.6

The reduction in arrears and charge-off rates in South Africa is driven by improvements in collections capabilities and stable performance of the existing portfolio.

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Notes

- a Defined as the yearly average of 30+ delinquency at 12 months on book (maturing in 2012 and 2013) for accounts re-aged during 2011 and 2012.
b Gross charge-off rates are calculated over average monthly outstanding balances through the year.

Business lending

Business lending primarily relates to small and medium enterprises typically with exposures up to £3m or with a turnover up to £5m.

The portfolio is managed in two ways: arrears managed and early warning list (EWL) managed.

- Arrears Managed accounts are principally customers with an exposure limit less than £50,000 in the UK and €100,000 in Europe, with processes designed to manage a homogeneous set of assets. Arrears balances reflect the total balances of accounts which are past due on payments.
- EWL Managed accounts are customers that exceed the Arrears Managed limits and are monitored with standard processes that record heightened levels of risk through an EWL grading. EWL balances comprise of a list of three categories graded in line with the perceived severity of the risk attached to the lending, and can include customers that are up-to-date with contractual payments or subject to forbearance as appropriate.

The principal portfolios listed below account for 87% (2012: 88%) of total business lending loans in the Group's retail portfolios.

	Arrears managed		Early Warning List managed		Loan loss rates bps	Annualised gross charge-off rates ^a %	Recoveries proportion of outstanding balances %	Recoveries coverage ratio %
	Drawn balances £m	Of which arrears balances %	Drawn balances £m	Of which Early Warning List balances %				
As at 31 December 2013								
UK	629	4.0	7,424	7.7	134	2.0	3.3	47.0
Spain	82	11.1	875	33.9	608	3.0	6.9	47.7
Portugal	157	4.6	268	25.1	691	6.6	9.2	65.4
As at 31 December 2012								
UK	713	6.0	7,122	9.2	140	2.5	4.3	34.9
Spain	95	11.3	993	60.4	210	3.8	6.6	45.0
Portugal	185	6.4	393	17.8	503	5.7	6.7	65.9

While UK business lending balances increased 3%, closer management of the portfolio has reduced the level of arrears and EWL balances leading to a reduction in recoveries balances.

The reduction in business lending balances in Spain and Portugal was primarily due to the tightening of credit policy and a reduction in new business volumes.

The loan loss rates in Spain increased to 608bps (2012: 210bps) due primarily to the impact of changes in the renewable energy sector impacting the cash flow of customers in this sector and the difficult macro environment. EWL balances in Spain as a percentage of drawn balances reduced significantly following the review of cases and identification of performing assets that were moved to the performing book.

The loan loss rates in Portugal increased to 691bps (2012: 503bps) driven by increasing charge-off rates and recovery balances due to the macroeconomic environment.

Note

- a Gross charge-off rates are calculated over average monthly outstanding balances through the year.

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UK Commercial Real Estate (UK CRE)

The UK CRE portfolio includes property investment, development, trading and housebuilders.

During 2013 the gross loans and advances increased 4% to £1,593m in line with the overall business lending growth, whereas past due balances reduced to 6.5% (2012: 8.0%) due to continued focus by a dedicated team with early engagement of distressed customers and developments reducing new flows into delinquency. The balance weighted LTV reduced marginally to 54.9% (2012: 57.5%).

UK Commercial Real Estate		
As at 31 December		
	2013	2012
UK CRE loans and advances (£m)	1,593	1,534
Past due balances (£m)	103	123
Balances past due as % of UK CRE total loans and advances	6.5%	8.0%
Impairment allowances (£m)	16.2	19.9
Past due coverage ratio	15.7%	16.1%
Total collateral (£m)	3,792	3,385
Marked-to-market LTV:		
Balance weighted (%)	54.9	57.5
Valuation weighted (%)	50.7	53.5
Marked-to-Market LTV – performing balances:		
Balance weighted (%)	54.2	57.2
Valuation weighted (%)	50.3	53.2
Marked-to-Market LTV – non-performing balances:		
Balance weighted (%)	75.8	75.4
Valuation weighted (%)	69.8	70.7
Twelve months ended 31 December		
Impairment charge (£m)	18.4	16.5

Maturity analysis of exposure to UK CRE								
Contractual maturity of UK CRE loans and advances at amortised cost								
	Past due balances £m	Not more than six months £m	Over six 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 five years £m	Over five years but not more than ten years £m	Over ten years £m	Total loans & advances £m
2013	103	69	37	45	163	276	900	1,593
2012	123	82	32	34	134	251	878	1,534

UK CRE LTV analysis						
As at 31 December	Balances		Balances as proportion of total		Collateral held	
	2013 £m	2012 £m	2013 %	2012 %	2013 £m	2012 £m
<=75%	1,187	1,080	74	70	3,437	2,989
>75% and <=80%	69	67	4	4	90	86
>80% and <=85%	57	62	4	4	70	76
>85% and <=90%	47	42	3	3	54	48
>90% and <=95%	28	47	2	3	31	52
>95% and <=100%	24	33	2	2	24	35
>100% and <=125%	66	81	4	5	63	75
>125%	36	39	2	3	23	24
Unsecured balances	79	83	5	6	n/a	n/a
Total	1,593	1,534	100	100	3,792	3,385

Portfolio LTVs have reduced due to appreciating commercial property values. Unsecured balances primarily relate to working capital facilities agreed with CRE companies.

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Wholesale credit risk

Gross loans and advances to customers and banks in the wholesale portfolios remained stable at £239.3bn. This reflected currency movements in Africa RBB offset by an increase in Wealth and Investment Management, primarily reflecting growth in the home loans portfolio.

The total loan impairment charge across the wholesale portfolios decreased 27% to £901m principally due to lower charges in Corporate Banking, mainly as a result of lower charges in Europe, reflecting actions to reduce exposure to the Spanish property and construction sectors and, in the UK, against large corporate clients. Impairment in Investment Bank was 9% higher than 2012 and was principally driven by a charge against a single name exposure in Q2 2013.

Key judgements were made on a number of identified cases within Investment Bank, Corporate Banking and Wealth and Investment Management. No material changes were made to unidentified impairment in 2013.

The lower impairment charge coupled with the lower loan balances resulted in an loan loss rate of 38bps (2012: 51bps).

Presented below is further information related to the Group's wholesale lending portfolios by business, with additional analysis of portfolios in Investment Bank and Corporate Banking. Further detail is presented on the Group's wholesale exposure to selected Eurozone countries (pages 182 to 189); geographic and industry asset concentrations (pages 145 to 148 and 152 to 153) and asset credit quality (page 150).

Wholesale loans and advances at amortised cost

	Gross L&A £m	Impairment allowance £m	L&A net of impairment £m	Credit risk loans £m	CRLs % of gross L&A %	Loan impairment charges £m	Loan loss rates bps
As at 31 December 2013							
Investment Bank ^a	144,312	468	143,844	753	0.5	209	14
Corporate Banking	66,246	1,991	64,255	3,694	5.6	517	78
– UK	51,805	369	51,436	1,175	2.3	173	33
– Europe	6,327	1,494	4,833	2,343	37.0	321	507
– Rest of World	8,114	128	7,986	176	2.2	23	28
Wealth and Investment Management	20,995	192	20,803	704	3.4	112	53
Africa RBB	5,875	235	5,640	580	9.9	65	111
Head Office and Other Functions	1,875	–	1,875	–	–	(2)	(11)
Total	239,303	2,886	236,417	5,731	2.4	901	38
As at 31 December 2012							
Investment Bank ^a	144,143	586	143,557	768	0.5	192	13
Corporate Banking	67,337	2,171	65,166	4,232	6.3	838	124
– UK	52,667	428	52,239	1,381	2.6	279	53
– Europe	8,122	1,536	6,586	2,607	32.1	527	649
– Rest of World	6,548	207	6,341	244	3.7	32	49
Wealth and Investment Management	19,236	141	19,095	603	3.1	38	20
Africa RBB	7,313	250	7,063	681	9.3	160	219
Head Office and Other Functions	1,466	16	1,450	19	1.3	–	–
Total	239,495	3,164	236,331	6,303	2.6	1,228	51

Note

a Investment Bank gross loans and advances include cash collateral and settlement balances of £91,305m as at 31 December 2013 and £85,116m as at 31 December 2012. Excluding these balances, CRLs as a proportion of gross loans and advances were 3.9% and the loan loss rate was 61bps.

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PCRLs and coverage ratios						
	CRLs		PPLs		PCRLs	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Investment Bank	753	768	173	327	926	1,095
Corporate Banking	3,694	4,232	718	624	4,412	4,856
Wealth and Investment Management	704	603	159	74	863	677
Africa RBB	580	681	50	77	630	758
Head Office and Other Functions	–	19	–	–	–	19
Total wholesale	5,731	6,303	1,100	1,102	6,831	7,405

	Impairment allowance		CRL coverage		PCRL coverage	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
As at 31 December						
Investment Bank	468	586	62.2	76.3	50.5	53.5
Corporate Banking	1,991	2,171	53.9	51.3	45.1	44.7
Wealth and Investment Management	192	141	27.3	23.4	22.2	20.8
Africa RBB	235	250	40.5	36.7	37.3	33.0
Head Office and Other Functions	–	16	–	84.2	–	84.2
Total wholesale	2,886	3,164	50.4	50.2	42.2	42.7

CRL balances decreased 9% to £5,731m primarily due to Corporate Banking where lower balances principally reflected a reduction in Europe, most notably Spain, following write-offs and a debt sale. This decrease was partially offset by a higher balance in Wealth and Investment Management, principally reflecting the inclusion of balances against two individual names. The CRL coverage ratio increased to 50.4% (2012: 50.2%).

Analysis of Investment Bank wholesale loans and advances at amortised cost							
	Gross L&A £m	Impairment allowance £m	L&A net of impairment £m	Credit risk loans £m	CRLs % of gross L&A %	Loan impairment charges £m	Loan loss rates bps
As at 31 December 2013							
Loans and advances to banks							
Interbank lending	11,975	10	11,965	18	0.2	–	–
Cash collateral and settlement balances	19,892	–	19,892	–	–	–	–
Loans and advances to customers							
Corporate lending	27,503	85	27,418	137	0.5	19	7
Government lending	1,149	–	1,149	–	–	–	–
Other wholesale lending	12,380	373	12,007	598	4.8	190	153
Cash collateral and settlement balances	71,413	–	71,413	–	–	–	–
Total	144,312	468	143,844	753	0.5	209	14
As at 31 December 2012							
Loans and advances to banks							
Interbank lending	13,763	41	13,722	51	0.4	41	30
Cash collateral and settlement balances	23,350	–	23,350	–	–	–	–
Loans and advances to customers							
Corporate lending	29,546	205	29,341	349	1.2	160	54
Government lending	1,369	–	1,369	–	–	–	–
Other wholesale lending	14,349	340	14,009	368	2.6	(9)	(6)
Cash collateral and settlement balances	61,766	–	61,766	–	–	–	–
Total	144,143	586	143,557	768	0.5	192	13

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Wholesale forbearance programmes

Wholesale client relationships are individually managed with lending decisions made with reference to specific circumstances and on bespoke terms. Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties. Forbearance occurs when Barclays, for reasons relating to the actual or perceived financial difficulty of an obligor, grants a concession below current Barclays standard rates (i.e. lending criteria below our current lending terms), that would not normally be considered. This includes all troubled debt restructures granted below our standard rates but excludes loans that have been renegotiated for commercial reasons that are not indicative of increased credit risk.

Personal and Trusts includes Wealth and Investment Management clients that are, at the time of origination, high net worth individuals who use funds and trusts to organise their personal financial affairs.

Analysis of wholesale balances in forbearance programmes

As at 31 December 2013	Balances on forbearance programmes						Impairment allowances marked against balances on forbearance programmes £m	Total balances on forbearance programmes coverage ratio %	Total balances on forbearance programmes % of gross L&A %
	Balances between 1 and 90 days past due £m	Balances 91 days or more past due £m	Total balances past due £m	Impaired up to date balances £m	Performing balances £m	Total balances £m			
Investment Bank	–	48	48	13	434	495	30	6.1	0.3
Corporate Banking	92	770	862	682	459	2,003	777	38.8	3.0
Africa RBB	21	25	46	7	106	159	14	8.8	2.7
Wealth Management Group	–	377	377	67	284	728	70	9.6	3.5
	113	1,220	1,333	769	1,283	3,385	891	26.3	1.4

Wholesale forbearance reporting split by exposure class

	Sovereign £m	Financial institutions £m	Corporate £m	Personal and trusts £m	Total £m
As at 31 December 2013					
Restructure: reduced contractual cash flows	–	–	281	–	281
Restructure: maturity date extension	5	50	1,164	65	1,284
Restructure: changed cash flow profile (other than extension)	5	–	579	25	609
Restructure: payment other than cash	–	–	23	1	24
Change in security	–	–	27	–	27
Adjustments or non-enforcement of covenants	–	–	410	96	506
Other (e.g. capital repayment holiday; restructure pending)	1	–	546	107	654
Total	11	50	3,030	294	3,385
As at 31 December 2012					
Restructure: reduced contractual cash flows	4	16	405	–	425
Restructure: maturity date extension	5	107	1,412	33	1,557
Restructure: changed cash flow profile (other than extension)	5	46	876	26	953
Restructure: payment other than cash	–	–	71	1	72
Change in security	–	–	76	8	84
Adjustments or non-enforcement of covenants	10	7	626	128	771
Other (e.g. capital repayment holiday; restructure pending)	–	–	318	74	392
Total	24	176	3,784	270	4,254

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Wholesale forbearance reporting split by business unit					
	Corporate Banking £m	Investment Bank £m	Wealth and Investment Management £m	Africa RBB £m	Total £m
As at 31 December 2013					
Restructure: reduced contractual cash flows	272	1	–	8	281
Restructure: maturity date extension	671	377	133	103	1,284
Restructure: changed cash flow profile (other than extension)	467	25	73	44	609
Restructure: payment other than cash	23	–	1	–	24
Change in security	22	–	4	1	27
Adjustments or non-enforcements of covenants	247	45	213	1	506
Other (e.g. capital repayment holiday; restructure pending)	301	47	304	2	654
Total	2,003	495	728	159	3,385
As at 31 December 2012					
Restructure: reduced contractual cash flows	258	138	–	29	425
Restructure: maturity date extension	952	408	112	85	1,557
Restructure: changed cash flow profile (other than extension)	624	152	70	107	953
Restructure: payment other than cash	64	7	1	–	72
Change in security	45	26	12	1	84
Adjustments or non-enforcements of covenants	377	115	277	2	771
Other (e.g. capital repayment holiday; restructure pending)	162	–	211	19	392
Total	2,482	846	683	243	4,254
Wholesale forbearance flows in 2013					
As at 1 January 2013					Balance £m
Added to forbearance					4,254
Removed from forbearance (credit improvement)					1,370
Fully or partially repaid and other movements (including FX)					(509)
Written off/moved to recoveries					(1,129)
As at 31 December 2013					(601)

The tables above detail balance information for wholesale forbearance cases.

Loan impairment on forbearance cases reduced 22% to £891m, which represented 26.3% of total forbearance balances.

Corporate borrowers accounted for 90% (2012: 89%) of balances and 94% (2012: 95%) of impairment booked to forbearance exposures, with impairment representing 28% (2012: 29%) of forbearance balances.

Corporate Banking accounted for 59% (2012: 58%) of overall wholesale forbearance with forbearance exposures in Corporate Banking in the UK accounting for 23% (2012: 16%) of total Wholesale forbearance balances and Corporate Banking in Spain accounting for 20% (2012: 29%). Corporate Spain accounted for 42% (2012: 45%) of total impairment booked to forbearance exposures.

The overall reduction in forbearance balances was driven primarily by full and partial repayments and balances written off or moved to recoveries.

- The 19% reduction in Corporate Banking forbearance was driven primarily by reductions in Spain, which is predominantly property and construction exposure. This reflects the overall strategic drive to reduce exposure in the Corporate Spain portfolio, including a small number of large write-offs taken as a result of debt sales;
- Wealth forbearance increased 7% driven by a combination of current EWL cases moving into forbearance, specifically due to a large number of property deals, along with newly reported cases booked in USA, Spain and Jersey. The increase was partially offset by balance reductions as a result of repayments or cases returned to performing, as well as balances that moving to full legal recovery or being written off in the year; and
- Reductions in Investment Bank forbearance balances were primarily driven by repayment by clients and the sale of debt/assets.

Movements into forbearance were principally in Corporate Banking and Wealth and Investment Management, which accounted for 62% and 19% respectively of balances added to forbearance.

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UK Commercial Real Estate (UK CRE)

The UK CRE portfolio includes property investment, development, trading and housebuilders but excludes social housing contractors. The wholesale businesses operate to specific lending criteria and the portfolio of assets is continually monitored through a range of mandate and scale limits.

Total loans and advances at amortised cost to UK CRE remained broadly stable at £9,842m (31 December 2012: £10,036m) with new lending limited to high quality assets.

The impairment charge of £62m (2012: £69m) was almost entirely in UK Corporate Banking.

Commercial Real Estate		
As at 31 December 2013	2013	2012 ^b
UK CRE loans and advances (£m) ^a	9,842	10,036
Past due balances (£m)	361	469
Balances past due as % of total loans	3.7	4.7
Impairment provision (£m)	110	106
Balances past due coverage ratio (%)	30	23

Twelve months ended 31 December	2013	2012
Impairment charge (£m)	62	69

Maturity analysis of exposure to UK CRE

	Contractual maturity of UK CRE loans and advances at amortised cost						Over ten years £m	Total loans and advances £m
	Past due balances £m	Not more than six months £m	Over six 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 five years £m	Over five years but not more than ten years £m		
As at 31 December 2013	361	592	931	1,342	4,128	1,115	1,373	9,842
As at 31 December 2012	469	849	593	1,037	4,574	957	1,557	10,036

LTV analysis of UK CRE assets and collateral

As at 31 December 2013	Balances £m	Balances as proportion of total %	Collateral held £m
<=50%	2,717	28	9,626
>50% and <=75%	4,511	46	7,570
>75% and <=100%	622	6	539
>100% and <=125%	132	1	126
>125%	165	2	44
Unassessed balances ^c	1,314	13	–
Unsecured balances	381	4	n/a
Total	9,842	100	17,905

Maturity analysis of exposure to Corporate Spain

	Contractual maturity of Corporate Spain loans and advances at amortised cost						Over ten years £m	Total loans and advances £m	Impairment allowances £m
	Past due balances £m	Not more than six months £m	Over six 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 five years £m	Over five years but not more than ten years £m			
As at 31 December 2013	1,101	796	130	151	315	256	163	2,912	977
As at 31 December 2012	1,156	1,197	78	327	772	253	282	4,065	1,074

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Notes

- a Includes £83m (2012: £270m) of UK CRE exposure held at fair value.
b 2012 numbers restated to reflect inclusion of a small numbers of assets now classified as UK CRE exposure.
c Corporate Banking balances under £1m.

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LTV analysis of Corporate Spain assets and collateral			
As at 31 December 2013	Balances £m	Balances as proportion of total %	Collateral held £m
<=75%	707	24	1,770
>75% and <=85%	138	5	173
>85% and <=90%	48	2	54
>90% and <=95%	23	1	25
>95% and <=100%	68	2	70
>100% and <=125%	209	7	189
>125%	287	10	122
Unsecured balances	1,432	49	n/a
Total	2,912	100	2,403

Timely management actions were taken in Spain to address emerging issues as the downturn developed. This resulted in problems being identified at an early stage.

Impairment allowances represented 34% of total balances to Corporate Spain (2012: 26%).

Total balances reduced 28% to £2,912m (2012: £4,064m), primarily due to debt sales and repayments. The maturity profile is well spread across different tenor buckets with a relatively low proportion above two years.

Collateral held in the above table includes cash, investment funds, equities, mortgages, bank guarantees and state guarantees.

Analysis of debt securities

Debt securities include government securities held as part of the Group's treasury management portfolio for asset and liability, liquidity and regulatory purposes and are for use on a continuing basis in the activities of the Group.

The following tables provide an analysis of debt securities held by the Group for trading and investment purposes by issuer type and where the Group held government securities exceeding 10% of shareholders' equity.

Further information on the credit quality of debt securities is presented on page 150. Further disclosure on sovereign exposures in the Eurozone is presented on pages 182 to 189.

Debt securities				
As at 31 December	2013		2012	
	£m	£m	£m	£m
Of which issued by:				
Governments and other public bodies	112,613	63.7	125,178	63.2
Corporate and other issuers	39,679	22.5	36,003	18.2
US agency	11,145	6.3	19,886	10.1
Mortgage and asset-backed securities	12,880	7.3	16,103	8.1
Bank and building society certificates of deposit	383	0.2	783	0.4
Total	176,700	100.0	197,953	100.0

Government securities			
As at 31 December	2013		2012
	Fair value £m	Fair value £m	Fair value £m
United Kingdom	30,951		29,252
United States	28,979		36,740
France	9,868		6,462
South Africa	5,136		6,582
Germany	4,856		4,506
Japan	3,952		6,439
Italy	2,564		3,717

Spain	1,147	2,828
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Analysis of derivatives (audited)

The tables below set out the fair values of the derivative assets together with the value of those assets subject to enforceable counterparty netting arrangements for which the Group holds offsetting liabilities and eligible collateral.

Derivative assets (audited)			
	Balance sheet assets £m	Counterparty netting ^a £m	Net exposure £m
As at 31 December 2013			
Foreign exchange	60,123	46,806	13,317
Interest rate	218,300	182,335	35,965
Credit derivatives	21,923	18,555	3,368
Equity and stock index	13,349	9,553	3,796
Commodity derivatives	10,640	1,279	9,361
Total derivative assets	324,335	258,528	65,807
Cash collateral held			33,509
Net exposure less collateral			32,298
As at 31 December 2012			
Foreign exchange	59,479	45,009	14,470
Interest rate	355,000	307,173	47,827
Credit derivatives	29,797	25,497	4,300
Equity and stock index	10,987	6,821	4,166
Commodity derivatives	13,893	3,172	10,721
Total derivative assets	469,156	387,672	81,484
Cash collateral held			46,855
Net exposure less collateral			34,629

Derivative asset exposures would be £292bn (2012: £435bn) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold cash collateral. Similarly, derivative liabilities would be £288bn (2012: £427bn) lower reflecting counterparty netting and collateral placed. In addition non-cash collateral of £8bn (2012: £6bn) was held in respect of derivative assets. Barclays received collateral from clients in support of over-the-counter (OTC) derivative transactions. These transactions are generally undertaken under International Swaps and Derivative Association (ISDA) agreements governed by either UK or New York law.

Exposure relating to derivatives, repurchase agreements, reverse repurchase agreements, stock borrowing and loan transactions is calculated using internal PRA approved models. These are used as the basis to assess both regulatory capital and capital appetite and are managed on a daily basis. The methodology encompasses all relevant factors to enable the current value to be calculated and the future value to be estimated, for example, current market rates, market volatility and legal documentation (including collateral rights).

Note

a 2012 counterparty netting for foreign exchange, interest rate and commodity derivatives have been revised to be on a consistent basis with 2013.

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Credit risk continued

The table below sets out the fair value and notional amounts of OTC derivative financial instruments by collateral agreement type. Unilateral (one way) arrangements are where only one party needs to provide collateral and can be in favour of either Barclays or the counterparty. Bilateral agreements require either party to post security, depending on the value of the contract.

Derivatives by collateral arrangement						
	Notional contract amount £m	2013 Fair value		Notional contract amount £m	2012 Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Unilateral in favour of Barclays						
Foreign exchange	29,098	363	(344)	27,261	492	(423)
Interest rate	6,495	652	(115)	17,019	1,064	(145)
Credit derivatives	402	14	(7)	493	4	(7)
Equity and stock index	486	4	(17)	660	–	(18)
Commodity derivatives	5,477	84	(90)	6,426	451	(432)
Total unilateral in favour of Barclays	41,958	1,117	(573)	51,859	2,011	(1,025)
Unilateral in favour of counterparty						
Foreign exchange	37,223	1,023	(2,995)	38,081	1,316	(3,052)
Interest rate	153,566	5,221	(7,067)	152,021	7,920	(10,778)
Credit derivatives	378	1	(46)	5,326	2	(24)
Equity and stock index	1,158	90	(112)	1,352	21	(291)
Commodity derivatives	5,645	236	(109)	4,592	327	(85)
Total unilateral in favour of counterparty	197,970	6,571	(10,329)	201,372	9,586	(14,230)
Bilateral arrangement						
Foreign exchange	4,245,971	53,917	(57,005)	3,962,623	53,002	(55,952)
Interest rate	11,740,243	205,781	(194,414)	14,414,758	335,532	(324,340)
Credit derivatives	1,261,171	21,390	(20,969)	1,507,569	28,134	(28,222)
Equity and stock index	143,121	7,173	(12,170)	145,888	6,787	(9,120)
Commodity derivatives	157,639	8,673	(8,310)	205,628	11,208	(12,525)
Total bilateral arrangement	17,548,145	296,934	(292,868)	20,236,466	434,663	(430,159)
Uncollateralised derivatives						
Foreign exchange	293,733	4,820	(4,350)	293,052	4,628	(4,413)
Interest rate	222,676	5,577	(1,945)	370,754	10,306	(4,381)
Credit derivatives	8,069	517	(611)	16,596	1,648	(945)
Equity and stock index	17,877	2,659	(2,383)	14,515	1,087	(2,394)
Commodity derivatives	35,090	1,104	(1,673)	29,912	1,241	(1,260)
Total uncollateralised derivatives	577,445	14,677	(10,962)	724,829	18,910	(13,393)
Total OTC derivative assets/(liabilities)	18,365,518	319,299	(314,732)	21,214,526	465,170	(458,807)

The uncollateralised derivative asset exposure (including unilateral in favour of counterparty) of £21bn would be £7bn lower than reported under IRFS if netting was permitted for assets and liabilities with the same counterparty and that are subject to set off under netting agreements.

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Exit Quadrant assets^a

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

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

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

Exit Quadrant income shown on page 261 differs from the income above due to revenues relating to associated litigation matters and recoverability of certain assets not yet received from the 2008 US Lehman acquisition.

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

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

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

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

Notes

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

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

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[Risk review >](#) Credit risk continued

Exposures to Eurozone countries (audited)

Overview

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

- Direct risk arising from sovereign default of an exiting country and the impact on the economy of, and the Group's counterparties in, that country;
- Indirect risk arising from the subsequent impact on the economy of, and the Group's counterparties in, other Eurozone countries;
- Indirect risk arising from credit derivatives that reference Eurozone sovereign debt (see page 188); and
- Direct redenomination risk on the potential mismatch in the currency of the assets and liabilities on balance sheets of the Group's local operations in countries in the Eurozone (see page 189).

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

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

Basis of preparation

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

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

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

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

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

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

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Notes

- a The Group also enters into reverse repurchase agreements and other similar secured lending, which are materially fully collateralised.
- b In addition, the Group held cash with the central banks of these countries totalling £0.2bn as at 31 December 2013 (2012: £0.7bn). Other material balances with central banks are classified within loans to financial institutions.

Summary of Group exposures

The following table shows Barclays exposure to Eurozone countries monitored internally as being higher risk and thus being the subject of particular management focus. Detailed analysis on these countries is on pages 184 to 187a. Exposures on loans and advances to geographic regions including Europe as a whole are set out on pages 152 and 153. The net exposure provides the most appropriate measure of the credit risk to which the Group is exposed. The gross exposure is also presented below, alongside off-balance sheet contingent liabilities and commitments. Gross exposure reflects total exposures before the effects of economic hedging by way of trading portfolio liabilities, derivative liabilities and cash collateral, but after taking into account impairment allowances and IFRS netting.

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

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

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

Gross exposure by country and counterparty (audited)								
	Sovereign £m	Financial institutions £m	Corporate £m	Residential mortgages £m	Other retail lending £m	Total gross on-balance sheet exposure £m	Contingent liabilities and commitments £m	Total gross exposure £m
As at 31 December 2013								
Spain	1,198	6,715	3,596	12,537	2,292	26,338	3,253	29,591

Italy	4,104	4,339	1,836	15,295	1,881	27,455	3,124	30,579
Portugal	526	171	950	3,413	1,548	6,608	2,288	8,896
Ireland	587	7,819	1,424	103	100	10,033	2,047	12,080
Cyprus	–	68	126	19	43	256	66	322
Greece	9	824	52	6	12	903	3	906

As at 31 December**2012**

Spain	2,900	9,291	4,450	13,305	2,428	32,374	3,301	35,675
Italy	5,429	7,725	2,348	15,591	1,936	33,029	3,082	36,111
Portugal	1,035	346	2,130	3,475	1,783	8,769	2,588	11,357
Ireland	56	8,432	1,395	112	83	10,078	1,644	11,722
Cyprus	9	102	119	44	26	300	131	431
Greece	3	1,181	61	8	9	1,262	5	1,267

Note

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

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Credit risk continued

Spain (audited)

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

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

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

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

Note

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

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Sovereign

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

Financial institutions

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

Residential mortgages

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

Corporate

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

Other retail lending

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

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Credit risk continued

Italy (audited)

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

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

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

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

Sovereign

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

Residential mortgages

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

Corporate

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

Other retail lending

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

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Note

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

Portugal (audited)

Fair value through profit or loss										
	Trading portfolio				Derivatives			Designated at FV	Total	
	Assets £m	Liabilities £m	Net £m		Assets £m	Liabilities £m		Assets £m	2013 £m	2012 £m
As at 31 December										
Sovereign	88	(67)	21	87	(87)	–	–	–	21	8
Financial institutions	18	(5)	13	129	(120)	(9)	–	–	13	18
Corporate	45	(18)	27	75	(37)	(4)	34	–	61	252

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

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

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

Sovereign

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

Residential mortgages

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

Corporate

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

Other retail lending

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

Note

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

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Credit risk continued

[Analysis of indirect exposures](#)

Indirect exposure to sovereigns can arise through a number of different sources, including credit derivatives referencing sovereign debt; guarantees to savings and investment funds which hold sovereign risk; lending to financial institutions who themselves hold exposure to sovereigns and guarantees, implicit or explicit, by the sovereign to the Group's counterparties. A geographic and industrial analysis of the Group's loans and advances, including lending to European counterparties by type, is set out on pages 152 and 153.

[Credit derivatives referencing sovereign debt](#)

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

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

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

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

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

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Exposure to Eurozone residential property sector

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

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

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

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

For information on our exposures to home loans in Spain, Portugal and Italy see pages 165 to 167.

Eurozone Balance Sheet Redenomination Risk

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

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

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

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

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

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 Market risk


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

All disclosures in this section (pages 190 to 198) are unaudited unless otherwise stated

Introduction

This section contains key statistics describing the market risk profile of the bank. It includes both regulatory and management measures. This includes risk weighted assets by major business line, as well as Value at Risk (VaR) measures. Throughout the section, measures on a regulatory and a management basis are shown. The market risk management section on pages 405 to 414 provides full descriptions of these metrics.

The Group has seen a significant decrease in market risk, from lower business activities and disposals (notably Exit Quadrant assets). These movements are reflected in a wide range of risk measures within this section.

- The relationship between the Group's market risk measures and balance sheet is presented on page 191.
- Measures of traded market risk, such as value at risk, decreased in the year due to lower levels of client activity and improved market conditions. More details are provided on pages 191 to 193.
- This translated into lower volatility in daily trading revenue in the Investment Bank, although with lower average daily revenue from 2012 levels.
- Market risk RWAs fell from 2012 levels as a result of improving market conditions and general reduction in exposures across the main books.
- The section also covers non-traded market risks that mainly occur as a consequence of banking activities other than trading activities; for instance, interest rate risk that arises in the banking book (IRRBB).
- Annual Earnings at Risk (AEaR) to interest rate shocks, a key measure of IRRBB, reduced in 2013. This reduction was predominately driven by changes in the equity structural hedge durations and a change in the hedge ineffectiveness sensitivity.
- Other market risks, such as pension risk, are disclosed from page 197 onwards.

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Balance sheet view of trading and banking books

As defined by the regulatory rules, a trading book consists of positions held for trading intent or to hedge elements of the trading book. Trading intent must be evidenced in the basis of the strategies, policies and procedures set up by the firm to manage the position or portfolio. The below table provides a group wide overview of where assets on the Group's regulatory balance sheet are managed within regulatory traded and non-traded books. A reconciliation between the IFRS and regulatory balance sheet is provided in the Pillar 3 report.

Balance sheet split by trading and banking books			
As at 31 December 2013	Banking book^a	Traded book £m	Total £m
Cash, balances at central banks and items in the course of collection	47,072	–	47,072
Trading portfolio assets	–	132,984	132,984
Financial assets designated a fair value	20,455	16,881	37,336
Derivative financial instruments	–	324,330	324,330
Available for sale investments	89,521	–	89,521
Loans and advances to banks	20,148	17,570	37,718
Loans and advances to customers	357,565	70,627	428,192
Reverse repurchase agreements and other similar secured lending	1,648	185,110	186,758
Other assets	19,878	312	20,190
Total assets	556,287	747,814	1,304,101
Deposits and items in the course of collection due to banks	47,787	9,605	57,392
Customer accounts	376,256	51,674	427,930
Repurchase agreements and other similar secured borrowings	6,511	190,212	196,723
Trading portfolio liabilities	–	53,464	53,464
Financial liabilities designated at fair value	9,471	54,756	64,227
Derivative financial instruments	–	320,634	320,634
Debt securities in issue	69,191	12,654	81,845
Subordinated liabilities	21,695	–	21,695
Other liabilities	15,322	1,046	16,368
Total liabilities	546,233	694,045	1,240,278

Included within the trading book are assets and liabilities which are included in the market risk regulatory measures. For more information on these measures (VaR, SVaR, IRC and APR) see the risk management section on pages 405 to 414.

Traded market risk review

Review of management measures

The following disclosures provide details on management measures of market risk. See page 407 for more detail on management measures and the differences when compared to regulatory measures.

The table below shows the total Investment Bank Management VaR on a diversified basis by risk factor (see page 407 for risk factor definitions). 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 Management VaR numbers in the table below include add-ons, to better represent the market risk where the VaR model may not fully represent some risk factors. See page 408 for a description of risks not in VaR (RNIVs).

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

Note

- a The primary risk factors for banking book assets and liabilities are interest rates and to a lesser extent, foreign exchange rates. Credit spreads and equity prices will also be a factor where the Group holds debt and equity securities respectively, either as Financial Assets Designated at Fair Value (see note 14) or as Available for Sale (see note 16).

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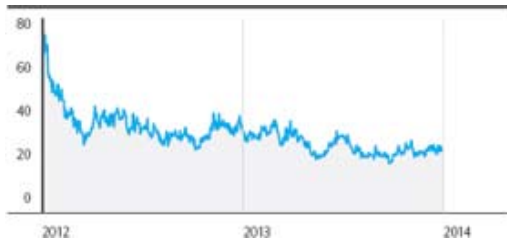
The daily average, maximum and minimum values of Management VaR						
For the year ended 31 December						
Management VaR (95%)	2013			2012		
	Average £m	High ^a £m	Low ^a £m	Average £m	High ^a £m	Low ^a £m
Credit risk	18	25	12	26	44	18
Interest rate risk	13	24	6	14	23	7
Spread risk	11	21	5	23	31	17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

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

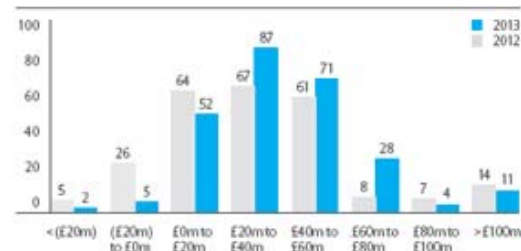
Equity risk VaR is the only risk factor that has shown an increase since 2012 as the business supported several key primary market activities over the year as well as increased volume.

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

Investment bank management VaR



Investment bank daily trading revenue



The histogram above shows the distribution of daily revenue for the Investment Bank in 2013 and 2012. This includes all income generated by Investment Bank except for Private Equity and Principal Investments. Business performance is discussed in more detail on pages 260 and 261.

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

Note

a The high and low VaR figures reported for each category did not necessarily occur on the same day as the high and low VaR reported as a whole. Consequently a diversification effect balance for the high and low VaR figures would not be meaningful and is therefore omitted from the above table.

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Investment Bank balance sheet and Management VaR

The table below provides an overview of the assets and liabilities of the major trading portfolios in Investment Bank and associated standalone Management VaR. Whilst the table on page 191 shows the total balance sheet breakdown for the Group, split by traded and non-traded net balance sheet, the table below shows the assets and liabilities for the major trading portfolios in Investment Bank that are most sensitive to market risk. These comprise available for sale investments, debt securities in issue, derivative financial instruments, positions with other financial institutions at fair value, repurchase agreements, and trading portfolio assets/liabilities. The corresponding Management VaR shown is on a standalone business perspective; refer to the table on page 192 for the total Investment Bank Management VaR by risk factor.

For the year ended 31 December 2013						
Portfolio	Description of business activity	Assets £m	Liabilities £m	Average Standalone Management VaR £m	Principal balance sheet line items	Principal market risk exposure
Fixed Income, Currencies and Commodities	Market maker in fixed income, currencies and commodity markets.	518,647	505,356	19	Derivative financial instruments and repurchase agreements and trading portfolio assets/liabilities.	Market risk exposure arises from credit trading including bond syndication, and interest rate, currency and commodity market making and trading. The business is well-diversified leading to lower risk.
Client Capital Management	This function primarily manages counterparty risk exposures arising from derivative contracts.	3,221	4,996	15	Trading portfolio assets/liabilities and derivative financial instruments and available for sale financial instruments.	Hedging the firm's credit including counterparty risk exposure on derivatives.
Other Credit	Provides specific credit market exposures.	1,237	370	9	Trading portfolio assets/liabilities.	Risk exposure is primarily to credit markets.
Equities	Provides equity market making and risk management services for clients.	16,265	16,954	8	Trading portfolio assets/liabilities and derivative financial instruments.	Provides derivative solution to clients. The business also supports cash equity trading, primary market issuance and block trades.
Portfolio Asset Book	Manages assets from non-core operations, including Exit Quadrant assets.	14,754	6,036	2	Trading portfolio assets/liabilities and derivative financial instruments and repurchase agreements.	Credit exposures which the business has been managing down.
Investment Bank Treasury	Provides funding and liquidity services.	27,780	22,128	11	Available for sale financial investments and debt securities in issue.	The principal service is the execution of liquidity and funding operations.
Other Investment Bank assets and liabilities	–	281,888	238,588	–	Loans and advances and cash at central banks.	–
Other Investment Bank VaR and VaR diversification	–	–	–	(36)	–	–
Total Investment Bank	–	863,792	794,428	29	–	–

In order to provide an estimation of the scale of the balance sheet instruments that generate market risk, as defined by Barclays for purposes of risk management, assets and liabilities of the significant Investment Bank business lines have been aggregated. Due to differences in data sets for market risk and IFRS reporting, whilst assets and liabilities exclude balance sheet line items that would clearly not generate market risk (e.g. fixed assets), some line items included (e.g. Financial assets designated at fair value) could contain assets that do not generate market risk. Therefore other Investment Bank assets and liabilities contains (i) business lines that are primarily defined as banking book, and (ii) line items that should not generate market risk.

Management VaR is shown at 95th percentile. Market risks arising from the individual portfolios listed above diversify to provide total Investment Bank management VaR shown on page 192. Some functions such as Treasury and Client Capital Management shows exposure as a result of the service it provides to the client facing franchise, such as managing the firm's exposure to counterparty default or providing funding to execute business. Some client activities are not within the scope of

Management VaR, resulting in the potential diversification not being captured. On the other hand, Management VaR associated with Fixed Income, Currencies and Commodities reflects diversification within that business line.

The primary client facing businesses such as FICC and Equities contribute to the majority of the total balance sheet assets. The Portfolio Asset Book manages credit exposures, which have been reduced over the year in line with the Exit Quadrant strategy.

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Combined Scenario Stresses

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

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

Review of regulatory measures

The following disclosures provide details on regulatory measures of market risk. See page 409 for more detail on regulatory measures and the differences when compared to management measures.

Barclays' market risk capital requirements comprise two elements:

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

The below table summarises the regulatory market risk measures, under the internal models approach.

Analysis of Regulatory VaR, SVaR, IRC and APR measures				
As at 31 December 2013	Year-end £m	Average £m	Max £m	Min £m
Regulatory VaR	42	46	67	31
SVaR	90	85	112	61
IRC	139	238	539	115
APR	29	141	183	29
As at 31 December 2012				
Regulatory VaR	44	68	133	42
SVaR	68	111	139	68
IRC	532	574	931	362
APR	176	213	275	176

Average Regulatory VaR fell by 32% to £46m (2012: £68m) and average SVaR fell by 23% to £85m (2012: £111m), both driven by improving market volatility and portfolio diversification.

Average IRC fell by 59% to £238m (2012: £574m) driven by a reduction in exposure to lower rated sovereign positions and a change in directional risk in corporate debt.

Average APR reduced by 34% to £141m (2012: £213m) due to an exit of a significant portion of the correlation portfolio.

As at 31 December 2013 (Year end)	Fixed Income, Currencies and Commodities £m	Client Capital Management £m	Other Credit £m	Equities £m	Portfolio Asset Book £m	Treasury £m
Regulatory VaR	24	25	1	21	2	3
SVaR	53	41	5	82	3	14
IRC	240	60	–	24	79	2
APR	27	–	–	–	8	–

The table above shows the primary portfolios which are driving Investment Bank's modelled capital requirement as at 2013 year end. The standalone portfolio results diversify at the total Investment Bank level and are not necessarily additive. Regulatory VaR in the prior table shows the total Investment Bank results.

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Non-traded market risk review

Net interest income sensitivity

The table below shows sensitivity analysis on the pre-tax net interest income for the non-trading financial assets and financial liabilities held at 31 December 2013 and 31 December 2012. The sensitivity has been measured using the Annual Earnings at Risk (AEaR) methodology as described on page 413. The benchmark interest rate for each currency is set as at 31 December 2013. The effect of structural hedging is taken into account.

Net interest income sensitivity (AEaR) by business unit								
As at 31 December	UK RBB £m	Europe RBB £m	Africa RBB £m	Barclaycard £m	Corporate Banking £m	Wealth and Investment Management £m	Other ^a £m	Total £m
2013								
+200bps	219	9	19	(84)	101	53	(92)	225
+100bps	118	5	9	(42)	50	27	(57)	110
-100bps	(140)	(1)	(8)	25	(160)	(15)	56	(243)
-200bps	(160)	(1)	(15)	26	(170)	(22)	49	(293)
2012								
+200bps	254	(3)	62	(99)	83	51	22	370
+100bps	135	(2)	29	(49)	41	25	3	182
-100bps	(175)	2	(25)	27	(143)	(15)	(45)	(374)
-200bps	(214)	2	(50)	18	(147)	(16)	(26)	(433)

Total AEaR to a +200bp shock decreased by 39% to £225m (2012: £370m), and to a -200bp shock, total AEaR decreased by 32% to £(293)m (2012: £(433)m). The drivers of these differences were predominantly due to large changes in UK RBB, Africa RBB and Other.

The change in UK RBB was due to a reduction in savings margin compression sensitivity due to additional hedges being transacted and a change in modelling pricing assumptions for Managed Rate Deposits in that they will follow market movements more closely.

The change in Africa RBB was primarily due to exchange rates and a reduction in asset and liability mismatch positions.

The change in Other was a combination of changes in the equity structural hedge durations (across GBP, EUR and USD) and a change in the hedge ineffectiveness sensitivity driven by increases in hedge positions (partly due to the rights issue in 2013).

Banking book exposures held or issued by the Investment Bank are excluded as these are measured and managed using VaR. AEaR to 100bp shocks decreased for the same reasons as outlined above and is split by currency in the table below.

Net interest income sensitivity (AEaR) by currency (audited)				
As at 31 December	2013		2012	
	+100 bps £m	-100 bps £m	+100 bps £m	-100 bps £m
GBP	92	(199)	96	(273)
USD	9	(21)	30	(23)
EUR	(18)	(7)	20	(49)
ZAR	10	(9)	27	(25)
Other currencies	17	(7)	9	(4)
Total	110	(243)	182	(374)
As percentage of net interest income	0.95%	(2.09%)	1.56%	(3.21%)

Barclays measure some non-traded market risks using an Economic Capital (EC) methodology. EC is predominantly calculated using a daily VaR model and then scaled up to a 1 year EC confidence interval (99.98%). For more information on definitions of prepayment, recruitment and residual risk, and on how EC is used to manage market risk, see the market risk management section on page 413.

Note

a Other consists of Group Treasury and adjustments made for hedge ineffectiveness.

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Economic capital							
As at 31 December	UK RBB £m	Europe RBB £m	Africa RBB £m	Barclaycard £m	Corporate Banking £m	Wealth and Investment Management £m	Total £m
2013							
Prepayment risk	29	–	–	10	2	–	41
Recruitment risk	111	–	–	2	1	–	114
Residual risk	6	13	38	4	1	3	65
2012							
Prepayment risk	38	–	–	13	2	–	53
Recruitment risk	27	–	–	1	1	–	29
Residual risk	5	15	35	2	1	1	59

Total Economic Capital (EC) increased by 56% to £220m, predominately due to the increase in recruitment risk, the risk that arises when the Group commits to providing a product at a predetermined price for a future period, but where the customer has no contractual obligation to take up the product. Recruitment risk EC in UK RBB increased from £27m to £111m driven by an increase in mortgage pre-hedging due to continuing high volumes (particularly in the five year term).

[Analysis of equity sensitivity](#)

The table below measures the overall impact of a +/- 100bps movement in interest rates on available for sale and cash flow hedge reserves. This data is captured using PV01 (Present Value of 1bp) which is an indicator of the shift in asset value for a 1bp shift in the yield.

Analysis of equity sensitivity (audited)				
As at 31 December	2013		2012	
	+100 bps £m	-100 bps £m	+100 bps £m	-100 bps £m
Net Interest Income	110	(243)	182	(374)
Taxation effects on the above	(27)	61	(51)	105
Effect on profit for the year	83	(182)	131	(269)
As percentage of net profit after tax	6.40%	(14.03%)	72.38%	(148.62%)
Effect on profit for the year (per above)	83	(182)	131	(269)
Available for sale reserve	(861)	861	(673)	673
Cash flow hedge reserve	(2,831)	2,808	(2,179)	2,260
Taxation effects on the above	923	(917)	799	(821)
Effect on equity	(2,686)	2,570	(1,922)	1,843
As percentage of equity	(4.20%)	4.02%	(3.20%)	3.07%

The higher sensitivity on AFS reserves is driven by an increase in debt securities held for liquidity purposes. The higher sensitivity on cash flow hedge reserves is driven by an increased volume of positions during the period.

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Foreign exchange risk (audited)

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

a) Transactional foreign currency exposure

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

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

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

b) Translational foreign exchange exposure

The Group's investments in overseas subsidiaries and branches create capital resources denominated in foreign currencies principally US Dollar, Euro and South African Rand. Changes in the GBP value of the net investments due to foreign currency movements are captured in the currency translation reserve, resulting in a movement in Common Equity Tier 1 Capital.

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

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

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

Functional currency of operations (audited)

	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Structural currency exposures pre economic hedges £m	Economic hedges £m	Remaining structural currency exposures £m
As at 31 December 2013						
US Dollar	34,220	5,555	12,558	16,107	5,812	10,295
Euro	9,336	538	5,570	3,228	2,833	395
Rand	3,835	—	114	3,721	—	3,721
Japanese Yen	454	89	352	13	—	13
Other	2,850	—	1,101	1,749	—	1,749
Total	50,695	6,182	19,695	24,818	8,645	16,173
As at 31 December 2012						
US Dollar	34,798	6,251	13,861	14,686	4,822	9,864
Euro	5,314	1,494	1,990	1,830	1,951	(121)
Rand	4,080	—	131	3,949	—	3,949
Japanese Yen	597	175	407	15	—	15
Other	3,040	—	1,027	2,013	—	2,013
Total	47,829	7,920	17,416	22,493	6,773	15,720

Pension risk review

The UK Retirement Fund (UKRF) represents approximately 91% of the Group's total retirement benefit obligations globally. The other material overseas schemes are in South Africa and the US where they represent approximately 5% and 2% respectively of the Group's total retirement benefit obligations. As such, this risk review section focuses exclusively on the UKRF.

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

See page 198 for more information on how pension risk is managed.

Assets

The Board of Trustees defines an overall long-term investment strategy for the UKRF, with investments across a broad range of asset classes. This ensures an appropriate mix of return seeking assets to generate future returns as well as liability matching assets to better match the future pension obligations. The main market risks within the asset portfolio are against interest rates and equities, as shown by the analysis of scheme assets within Note 37.

Fair value of UKRF plan assets increased by 4% to £23.7bn (2012: £22.8bn), driven by equities on the back of an equities rally.

However, equities risk within the portfolio was relatively unchanged as its percentage against the rest of the portfolio remained stable.

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Liabilities

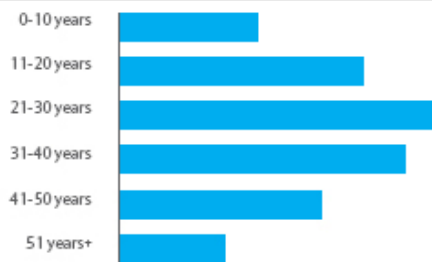
The retirement benefit obligations are a series of future cash flows with relatively long duration. On an IAS 19R basis these cash flows are sensitive to changes in the expected long term inflation rate and the discount rate (AA corporate bond yield curve):

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

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

For more detail on liability assumptions see note 37.

Proportion of liability cashflows



Risk measurement

In line with Barclays risk management framework, the assets and liabilities of the UKRF are modelled within a VaR framework to show the volatility of the pension positions on a total portfolio level. This ensures that the risks, diversification benefits and liability matching characteristics of the UKRF obligations and investments are adequately captured. VaR is measured and monitored on a monthly basis at the pension risk for a such as the Market Risk Committee, Pension Management Group and Pensions Executive Board. The VaR model takes into account the valuation of the liabilities based on an IAS 19R basis (see note 37). The Trustees, via their consultants Towers Watson, receive quarterly VaR measures on a Funding basis.

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

Unlike traded market risk, the capital requirement for pension risk is not reflected in risk weighted assets. Instead, the calculation is applied as a deduction from capital resources which has a similar effect on capital ratios.

Triennial valuation

The last triennial valuation was started with an effective date of 30 September 2010. In compliance with the Pensions Act 2004, the current valuation is being carried out with an effective date of 30 September 2013. During 2014, the Bank and Trustees will agree a scheme-specific fund.

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Funding risk – Capital


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

All disclosures in this section (pages 199 to 207) are unaudited unless otherwise stated

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

Barclays has continued to maintain a capital buffer over the PRA's minimum regulatory capital requirements.

For further information on funding capital risk policies, please refer to the Risk management section on pages 420 and 421.

For further information on future regulatory impacts and supervision and regulation, refer to pages 230 to 235.

The Core Tier 1 ratio increased to 13.2% (2012: 10.8%) reflecting an increase in Core Tier 1 capital of £5.1bn to £46.8bn. Barclays generated £1.3bn Core Tier 1 capital from earnings after absorbing the impact of provisions for PPI and interest rate hedging product redress. After deducting £1.7bn of dividends paid during 2013, retained regulatory capital generated from earnings decreased Core Tier 1 capital by £0.4bn. Other material movements in Core Tier 1 capital were:

- £5.8bn increase in share capital and share premium due to the rights issue;
- £0.8bn increase in share capital and share premium due to warrants exercised;
- £1.8bn decrease due to foreign currency movements, primarily due to the strengthening of GBP against USD and ZAR; and
- £0.5bn decrease in securitisation deductions due to rundown of exit quadrant assets.

Total Capital Resources increased overall by £4.8bn to £70.7bn.

The increases in Core Tier 1 capital were partially reduced by decreases in Tier 2 capital as a result of £1.4bn of redemptions of dated subordinated liabilities offset by £0.7bn of new issuances and a further £0.5bn decrease in securitisation deductions at a total capital level.

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Funding risk – Capital continued

Capital Composition

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

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

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Notes

- a Additional Tier 1 instruments that are not eligible for CRD III capital but are eligible under CRD IV rules.
b The capital impacts of these items are net of tax.
c Tier 1 notes and reserve capital instruments are included in subordinated liabilities in the consolidated balance sheet.

Movement in total regulatory capital		
	2013 £m	2012 £m
Core Tier 1 capital as at 1 January	41,722	42,093
Profit for the period	1,297	181
Removal of own credit ^a	2	3,484
Dividends paid	(1,672)	(1,427)
Retained regulatory capital generated from earnings	(373)	2,238
Rights issue	5,830	–
Movement in reserves – impact of ordinary shares and share schemes	1,203	(165)
Movement in currency translation reserves	(1,767)	(1,548)
Movement in retirement benefit reserves	(515)	(1,235)
Other reserves movements	17	33
Movement in other qualifying reserves	4,768	(2,915)
Movement in regulatory adjustments and deductions:		
Defined benefit pension adjustment ^a	146	53
Goodwill and intangible asset balances ^a	4	(62)
50% excess of expected losses over impairment ^a	(139)	(142)
50% of securitisation positions	494	320
Other regulatory adjustments	162	137
Core Tier 1 capital as at 31 December	46,784	41,722
Other Tier 1 capital as at 1 January	9,513	7,407
Regulatory adjustments and other movements	(89)	(82)
50% of material holdings	(218)	2,141
50% of the tax on excess of expected losses over impairment	(170)	47
Tier 1 capital as at 31 December	55,820	51,235
Tier 2 capital as at 1 January	16,327	16,323
Issuance of contingent capital notes and subordinated notes	652	2,258
Redemption of subordinated notes	(1,391)	(2,672)
Amortisation adjustments	349	(155)
Regulatory adjustments and other movements	(220)	(612)
Reserves arising on revaluation of property ^a	(32)	14
Unrealised gains on available for sale equity ^a	43	(718)
Collectively assessed impairment allowances	(127)	(383)
50% of material holdings	(218)	2,141
50% excess of expected losses over impairment (gross of tax)	31	(189)
50% of securitisation positions	494	320
Tier 2 capital as at 31 December	15,906	16,327
Other deductions from total capital as at 1 January	(1,689)	(2,588)
Investments that are not material holdings or qualifying holdings	371	852
Other deductions from total capital	262	47
Other deductions from total capital as at 31 December	(1,056)	(1,689)
Total regulatory capital as at 31 December	70,670	65,873

Note

- a The capital impacts of these items are net of tax.

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Funding risk – Capital continued

The following table represents risk weighted assets (RWAs) by risk type and business, using specific risk measurement approaches as defined under CRD III.

Risk Weighted Assets (RWAs) by risk type and business										
	Credit risk			Counterparty credit risk		Market risk			Operational risk	Total RWAs
	STD £m	F-IRB £m	A-IRB £m	Internal model method £m	Non- model method £m	STD £m	Modelled VaR £m	Charges add-on and non-VaR modelled £m	£m	£m
As at 31 December 2013										
UK RBB	2,639	–	34,765	–	–	–	–	–	6,680	44,084
Europe RBB	4,206	–	9,568	–	4	–	–	–	2,128	15,906
Africa RBB	5,196	4,820	8,400	–	3	–	–	–	3,965	22,384
Barclaycard	18,070	–	16,479	–	–	–	–	–	6,594	41,143
Investment Bank	7,306	3,142	41,031	20,847	6,120	16,957	14,932	7,490	24,807	142,632
Corporate Bank	22,582	2,846	36,132	649	2	–	–	–	6,717	68,928
Wealth and Investment Management	11,209	225	1,796	–	230	–	–	–	3,261	16,721
Head Office Functions and Other Operations	168	–	2,684	–	–	–	–	–	159	3,011
Total RWAs	71,376	11,033	150,855	21,496	6,359	16,957	14,932	7,490	54,311	354,809
As at 31 December 2012										
UK RBB	1,163	–	31,401	–	–	–	–	–	6,524	39,088
Europe RBB	5,051	–	8,786	–	3	–	–	–	1,955	15,795
Africa RBB	3,801	5,778	10,602	–	7	–	–	–	4,344	24,532
Barclaycard	17,326	–	13,957	–	–	–	–	–	6,553	37,836
Investment Bank	9,386	3,055	48,000	25,127	4,264	25,396	22,497	15,429	24,730	177,884
Corporate Bank	28,295	3,430	31,897	500	–	–	–	–	6,736	70,858
Wealth and Investment Management	11,647	317	707	–	199	–	–	–	3,184	16,054
Head Office Functions and Other Operations	205	–	4,961	–	–	–	–	–	160	5,326
Total RWAs	76,874	12,580	150,311	25,627	4,473	25,396	22,497	15,429	54,186	387,373

The table below outlines the 2013 changes in RWAs, split by risk type and key drivers for the movements. A more comprehensive basis of preparation for this table is disclosed within the Barclays Pillar 3 report on page 24.

Movement analysis of RWAs					
	Credit Risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk £bn	Total £bn
As at 1 January 2013	239.8	30.1	63.3	54.2	387.4
Book size	6.0	(2.1)	(17.9)	0.1	(13.9)
Acquisitions and disposals (including Exit Quadrant)	(7.7)	(0.2)	(3.6)	0.1	(11.4)
Book quality	(4.5)	0.2	(0.1)	–	(4.4)
Model updates	2.6	0.8	(0.1)	–	3.3
Methodology and policy	1.6	(0.2)	–	–	1.4
Foreign exchange movement ^a	(4.6)	(0.3)	(0.2)	(0.1)	(5.2)
Other	0.1	(0.4)	(2.1)	–	(2.4)
As at 31 December 2013	233.3	27.9	39.3	54.3	354.8

RWAs decreased by £32.6bn, reflecting:

- Reductions in book size decreased RWAs by £13.9bn, primarily driven by reduced sovereign exposure and risk reductions in the trading book, offset by asset growth in UK RBB and Barclaycard;
- Acquisitions and disposals decreased RWAs by £11.4bn, primarily driven by Exit Quadrant reductions, offset by the acquisition of Barclays Direct;
- Book quality improved resulting in a RWA reduction of £4.4bn, primarily driven by changing risk profile within UK RBB, Corporate Bank and the Investment Bank;

- Model updates increased RWAs by £3.3bn, primarily driven by model changes within Barclaycard in order to meet changes in regulatory guidance;
- Methodology and policy changes increased RWAs by £1.4bn, driven by changes to the treatment of forbearance, offset by improvements to the application of collateral to credit exposures;
- Foreign exchange movements decreased RWAs by £5.2bn, primarily driven by the appreciation of GBP against ZAR; and
- Other decreased RWAs by £2.4bn, primarily driven by changes in measurement within the trading book.

Note

a Foreign exchange movement does not include FX for IMM, Modelled Market Risk or Exit Quadrant.

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[CRD IV as implemented by the Prudential Regulation Authority](#)

The new Capital Requirements Regulation and amended Capital Requirements Directive have implemented Basel 3 within the EU (collectively known as CRD IV) with effect from 1 January 2014. However, certain aspects of CRD IV are dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission as well as UK implementation of the rules. Barclays has calculated RWAs, Capital and Leverage ratios reflecting our interpretation of the current rules and guidance. Further changes to the impact of CRD IV may emerge as the requirements are finalised and implemented within Barclays.

[Capital ratios](#)

Barclays continues to be in excess of minimum CRD IV capital ratios on both a transitional and fully loaded basis.

As at 31 December 2013 Barclays exceeded the PRA target fully loaded CET1 ratio of 7%. On a transitional basis the PRA has implemented a minimum requirement CET1 ratio of 4%, Tier 1 ratio of 5.5% (in 2014) and Total Capital ratio of 8%.

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

Under current PRA guidance, the Pillar 2A add-on will need to be met with 56% CET1 from 2015, which would equate to approximately 1.4%^a of RWAs if the requirement were to be applied today. The Pillar 2A add-on would be expected to vary over time according to the PRA's individual capital guidance.

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

[Capital resources](#)

The PRA has announced the acceleration of transitional provisions relating to CET1 deductions and filters so the fully loaded requirements are applicable from 1 January 2014, with the exception of unrealised gains on available for sale debt and equity. As a result, transitional capital ratios are now closely aligned to fully loaded ratios.

Following the issuance of the EBA's final draft technical standard on own funds, a deduction has been recognised for foreseeable dividends. As at 31 December 2013, this represents an accrual for the final dividend for 2013, calculated at 3.5p per share, and the coupons on other equity accounted instruments.

Grandfathering limits on capital instruments, previously qualifying as Tier 1 and Tier 2, are unchanged under the PRA transitional rules.

The Prudential Valuation Adjustment (PVA) is shown as fully deducted from CET1 upon adoption of CRD IV. PVA is subject to a technical standard being drafted by the EBA and the impact is currently based on methodology agreed with the PRA. The PVA deduction as at 31 December 2013 was £2.5bn.

Barclays continues to recognise minority interests in eligible subsidiaries within African operations as CET1 (subject to regulatory haircuts prescribed in CRD IV) in accordance with our application of regulatory requirements on own funds.

As a result of the application of the EBA's final draft technical standard, PRA guidance and management actions taken during 2013, net long non-significant holdings in financial entities amount to £3.5bn and are below the 10% CET1 threshold that would require a capital deduction.

[RWAs](#)

The PRA has confirmed Barclays model approvals under CRD IV, with certain provisions reflecting relevant changes to the rules and guidance; the impact of which has been reflected in our CRD IV disclosures where applicable. Barclays models are subject to continuous monitoring, update and regulatory review, which may result in future changes to CRD IV capital requirements.

It is assumed that corporates, pension funds and sovereigns that meet the eligibility conditions are exempt from CVA volatility charges.

Under CRD IV rules, all Central Clearing Counterparties (CCPs) are deemed to be 'Qualifying' on a transitional basis. The final determination of Qualifying status will be made by the European Securities and Markets Authority (ESMA).

RWAs include 1250% risk weighting of securitisation positions that were previously deducted from Core Tier 1 and Tier 2 capital. The RWA increases are reflected in Credit Risk, Counterparty Credit Risk and Market Risk.

Securitisation RWAs include the impact of CRD IV on applying either standardised or advanced methods for securitisation exposures dependent on the character of the underlying assets.

[Note](#)

a Based on a point in time assessment made by the PRA, at least annually. The PRA is developing proposals to reform its Pillar 2 framework and, as noted

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in PS7/13 (PRA policy statement PS7/13 on strengthening capital standards published in December 2013), it expects to consult on those proposals during the course of 2014. The EBA is also developing guidelines on the Supervisory Review and Evaluation Process (SREP) and on Pillar 2 capital, which are likely to affect how the PRA approaches Pillar 2.

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Funding risk – Capital continued

Impact of CRD IV – Capital	
As at 31 December 2013	Fully-loaded £bn
Core Tier 1 capital (CRD III)	46.8
RWA (CRD III)	354.8
Core Tier 1 ratio (CRD III)	13.2%
CRD IV impact on Core Tier 1 capital:	
Conversion from securitisation deductions to RWAs	0.5
Prudential Valuation Adjustment (PVA)	(2.5)
Debit Valuation Adjustment (DVA)	(0.2)
Expected losses over impairment	(1.3)
Deferred tax assets deduction	(1.0)
Excess minority interest	(0.6)
Pensions	(0.2)
Foreseeable dividends	(0.7)
Gains on available for sale equity and debt	0.2
Other	(0.6)
CET1 capital	40.4
Tier 1 capital	42.7
Total capital	61.6
RWAs (CRD III)	354.8
CRD IV impact to RWAs:	
Credit Valuation Adjustment (CVA)	17.3
Securitisation	19.3
Other Counterparty Credit Risk (including Central Counterparty Clearing)	30.6
Other ^a	13.6
RWA impact	80.8
CRD IV RWAs	435.6
CET1 ratio	9.3%
Tier 1 ratio	9.8%
Total capital ratio	14.1%

As at 31 December 2013, assuming 2013 was the first year of application under the PRA's transitional rules, which reflect the maximum pace of transition, Barclays CET1 ratio would be 9.2%^{b,c}, the Tier 1 ratio would be 11.5% and the total capital ratio would be 15.3%.

CRD IV – RWA by risk type and business					
As at 31 December 2013	Credit risk £m	Counterparty credit risk £m	Market risk £m	Operational risk £m	Total CRD IV RWAs £m
UK RBB	37,456	–	–	6,680	44,136
Europe RBB	14,084	4	2	2,128	16,218
Africa RBB	18,838	3	–	3,965	22,806
Barclaycard	33,859	–	–	6,594	40,453
Investment Bank	69,621	58,188	69,029	24,807	221,645
Corporate Bank	63,101	651	–	6,717	70,469
Wealth and Investment Management	13,714	231	74	3,261	17,280
Head Office Functions and Other Operations	2,389	–	–	159	2,548
Total CRD IV RWAs	253,062	59,077	69,105	54,311	435,555

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Notes

- a Other CRD IV impacts to RWAs include deferred tax asset, significant holdings in financial institutions and other items.
 b Difference to fully loaded ratio arises from an additional capital deduction for unrealised gains on available for sale debt and equity of £0.2bn.
 c The transitional CET1 ratio according to the FSA October 2012 transitional statement would be 11.3%.

Leverage ratio requirements

CRD IV introduces a non-risk based leverage ratio that is intended to act as a supplementary back-stop to the risk-based capital measures. The CRD IV leverage ratio is calculated as CRD IV Tier 1 capital divided by CRD IV leverage exposure. Under CRD IV, banks are required to report their leverage ratio for supervisory review purposes from 2014 and from 2015 banks are required to publish their leverage ratios in Pillar 3 disclosures, with the expectation that a binding Pillar I requirement will be introduced across the EU from 2018. The EBA is tasked with monitoring banks' submissions with regard to the leverage ratio by the end of 2016 which may result in further changes to the leverage ratio.

The PRA has communicated its expectation that Barclays meets a 3% estimated PRA leverage ratio by June 2014. The estimated PRA leverage ratio is calculated on the fully loaded CRD IV Tier 1 capital base adjusted for certain PRA defined deductions, and a PRA adjusted^a CRD IV leverage exposure measure.

Barclays expects to meet the leverage expectation of 3% communicated by the PRA.

Barclays has disclosed an estimated leverage ratio based on our understanding of the requirements and guidance of CRD IV as currently published and is subject to further change as the rules are fully implemented. The estimated ratio does not take account of the finalisation of the Basel 3 leverage ratio framework issued by the Basel Committee on 12 January 2014.

CRD IV leverage ratio calculation

In calculating the CRD IV leverage ratio the IFRS balance sheet is taken as a starting point and the following key adjustments to total assets have been applied:

- Derivatives netting adjustment: regulatory netting applied across asset and liability mark-to-market derivative positions pursuant to legally enforceable bilateral netting agreements and meeting the requirements of CRD IV;
- Potential Future Exposure (PFE) on derivatives: regulatory add-on for potential future credit exposures, calculated in accordance with the CRD IV mark-to-market method by assigning standardised percentages to the notional values on derivative contracts;
- Securities Financing Transactions (SFTs) adjustments: under CRD IV, the IFRS measure of SFTs is replaced with the Financial Collateral Comprehensive Method (FCCM) measure, calculated as an add-on equal to exposure less collateral, taking into account master netting agreements and adjusting for volatility haircuts;
- Undrawn Commitments: regulatory add-ons relating to off balance sheet undrawn commitments are based on a standardised credit conversion factor of 10% for unconditionally cancellable commitments and 100% for all other commitments. The rules specify relief to be applied to trade finance related undrawn commitments which are deemed to be medium/low risk (20%) and medium risk (50%);
- Regulatory deductions: items (comprising goodwill and intangibles, deferred tax asset permanent losses, own paper, cash flow hedge reserve, pension assets and PVA) that are deducted from the capital measure are also deducted from total leverage exposure to ensure consistency between the numerator and denominator;
- Other adjustments: includes adjustments required to change from an IFRS scope of consolidation to a regulatory scope of consolidation, adjustments for significant investments in financial sector entities that are consolidated for accounting purposes but not for regulatory purposes, and the removal of IFRS reduction in assets for the recognition of Credit Risk Mitigation and the netting of loans with deposits; and
- In addition, in accordance with SS3/13^b the estimated PRA adjusted leverage exposure allows for further adjustments that reduce leverage exposure by £14bn. These adjustments:
 - Exclude potential future exposure on the qualifying central clearing counterparties (QCCPs) legs of client clearing transactions where Barclays does not guarantee the performance of the QCCP to the client
 - Allow for the netting of assets with cash collateral received for variation margin in relation to derivatives trades to facilitate customer central clearing as well as cash collateral received and posted on Barclays own derivative transactions with QCCPs.

Basel Committee leverage ratio

On 12 January 2014, the Basel Committee announced the finalisation of its revised rules for calculating the Basel 3 leverage ratio. These included a number of elements that would require amendments to CRD IV if adopted in the EU, although

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implementation timeframes within the EU are not yet clear. Compared to the current CRD IV implementation, the revised rules contain elements that will increase leverage exposure; including capturing a calculation for net written credit derivatives based upon their notional value and the inclusion of netted cash legs of SFTs. The revised rules also include elements that will reduce leverage exposure including, the removal of volatility haircuts in relation to the SFTs' add-on, the ability to net down derivative MTM exposures with eligible cash collateral (this element includes the impact of the PRA rule changes, and expands upon them), and more favourable credit conversion factors for undrawn commitments. Based on an initial high level impact analysis we have estimated the changes would decrease the CRD IV leverage ratio by approximately 20 basis points prior to management actions.

Notes

- a Adjusted to avoid creating disincentives to facilitate central clearing for customers and cash variation margin received and posted (as specified under SS3/132).
- b PRA Supervisory Statement SS3/13 on Capital and leverage ratios for major UK banks and building societies published in November 2013.

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Funding risk – Capital continued

Estimated impact of CRD IV – leverage			
	IFRS Balance Sheet As at 31.12.13 £bn	Leverage exposure As at 31.12.13 £bn	Leverage exposure As at 30.06.13 £bn
Fully loaded Leverage exposure			
Derivatives			
IFRS derivative financial instruments	324	324	403
Additional netting adjustments for derivatives		(260)	(324)
Potential future exposure on derivatives		256	308
Total derivatives		320	387
Securities Financing Transaction (SFTs)			
Reverse repurchase agreements and other similar secured lending	187	187	223
Remove IFRS reverse repurchase agreements and other similar secured lending		(187)	(223)
Add leverage exposure measure for SFTs		92	93
Total securities financing transactions		92	93
Other assets and adjustments			
Loans and advances and other assets	801	801	907
Undrawn commitments		179	190
Regulatory deductions and other adjustments		(15)	(18)
Total other assets and adjustments		965	1,079
Total exposure	1,312	1,377	1,559
PRA adjustment to CRD IV leverage exposure		(14)	–
PRA adjusted leverage exposure		1,363	1,559
		Leverage ratio As at 31.12.13	Leverage ratio As at 30.06.13
Leverage ratio			
CET1 capital		40.4	38.1
Additional Tier 1 capital		2.3	0.2
Tier 1 capital		42.7	38.3
PRA deductions to CET1 capital ^a		(2.2)	(4.1)
PRA adjusted Tier 1 capital		40.5	34.2
CRD IV fully loaded leverage ratio		3.1%	2.5%
PRA fully loaded leverage ratio		3.0%	2.2%

The estimated PRA leverage exposure decreased to £1,363bn (June 2013: £1,559bn). Excluding the impact of movements in foreign currency, leverage exposure reduced approximately £140bn driven by reductions in loans and advances, trading portfolio assets and potential future exposure on derivatives.

Applying the Basel 3 2010 text for the calculation of leverage would result in an estimated leverage exposure of £1,521bn (June 2013: £1,665bn), reflecting an increase of £144bn in the SFT exposure calculation from the CRD IV exposure. The estimated fully loaded leverage ratio would be 2.8% (June 2013: 2.3%) on this basis.

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Note

- a The PRA adjustment to CET1 capital as at 30 June 2013 included incremental expected loss charges on specific portfolios deemed vulnerable by the PRA and a deduction relating to the calculation of PVA. No adjustment for PVA was applied as at 31 December 2013 as the underlying calculation of CET1 capital has been updated to reflect the agreed change in methodology.

Economic capital (EC) and its use as part of the ICAAP assessment (Pillar 2)

RWAs, as provided in previous pages, are measured based on generic regulatory capital rules that assume all financial institutions have a well diversified portfolio. An alternative approach to measure Capital risk is to use an Economic Capital calculation approach that takes into consideration firm specific concentrations (e.g. sector, geography, single name), risk exposures and portfolio correlations.

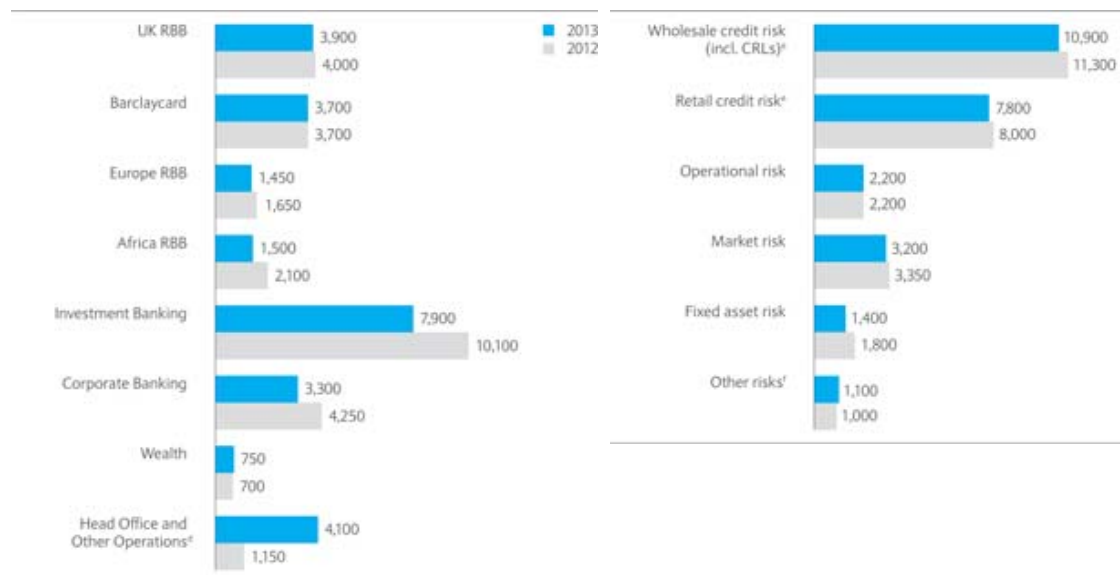
Economic capital is an internal measure of the risk profile of the bank expressed as the estimated stress loss at a 99.98% confidence level. Barclays assesses capital requirements by measuring the Group's risk profile using internally developed models. The Group assigns economic capital primarily within the following risk categories: credit risk, market risk, operational risk, fixed asset risk (mainly property) and pension risk.

The Group regularly reviews its economic capital methodology and benchmarks outputs to external reference points. The framework uses default probabilities during average credit conditions, rather than those prevailing at the balance sheet date, thus seeking to remove cyclicalities from the economic capital calculation. The economic capital framework takes into consideration time horizon, correlation of risks and risk concentrations. Economic capital is allocated on a consistent basis across all of Barclays businesses and risk activities.

UK firms, as part of Pillar 2 framework, are required to update annually the firm's Internal Capital Adequacy Assessment Process (ICAAP). The information provided by Barclays within the ICAAP is used by the PRA/BoE to support the regulator capital solvency review. Requirements for local ICAAPs also exist in a number of jurisdictions in which Barclays operates (e.g. South Africa). The Group ICAAP is used to assesses Group-wide capital adequacy to cover for all risks to which the Group is exposed.

As part of the Group ICAAP, and in line with PRA/BoE rules, the internal measure of Capital (EC) is used to support the Group's assessment of the appropriateness of capital allocated to each risk type. Economic Capital is also used to assess capital adequacy of a number of Barclays subsidiaries (as part of Local ICAAPs). Key risks considered as part of the Group and Local ICAAPs are:

- Pillar 1 risks (i.e. Credit, Market and Operational risk) – for which capital requirements are primarily based on the Regulatory Capital framework (IRB and Standardised approaches) and calculated in line with PRA rules set out in GENPRU/BIPRU. Regulatory Capital requirements are then benchmarked against our Economic Capital calculations as part of our ICAAP assessment.
- Non-Pillar 1 risks – for which we have bespoke approaches that are mainly included in the EC framework. Main non-Pillar 1 risks:
 - Pension risk – Barclays does not have ownership of the investments within the pension fund but rather works with the Trustees' dedicate investment team to ensure that the risk profile is appropriate and within risk appetite;
 - Concentration risk (e.g. single name, industry, geography) – managed and monitored as part of BAU, mainly through Group risk appetite framework, policy setting, monitoring, stress testing and EC framework. For EC purposes concentration risk is accounted for within each relevant risk type (mainly as part of the Wholesale Credit Risk EC calculation); and
 - Interest Rate Risk in the Banking Book (IRRBB), also called non-traded interest rate risk (included as part of Market Risk in graphics below) – Barclays' objective is to minimise non-traded interest rate risk and this is achieved by transferring IRRBB from the business to Barclays Treasury, which in turn hedges the net exposure via Barclays Investment Bank with the external market. Limits exist to ensure no material risk is retained within any business/product area.



Notes

- a Figures are rounded to the nearest £500m for presentation purposes.
b Total period end spot economic capital requirement (including pension risk) as at 31 December 2013 stood at £31,050m (2012: £31,050m).
c Economic capital charts exclude the economic capital calculated for pension risk (spot pension risk for 2013 is £4,450m compared with £3,400m in 2012).
d Includes Transition Businesses and capital for central function risk.
e Includes credit risk loans.
f Includes investments in associates, private equity risk, insurance risk, residual value and business risk.

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Funding risk – Liquidity


Liquidity risk is the risk that a firm, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. This also results in a firm's inability to meet regulatory liquidity requirements. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

All disclosures in this section (pages 208 to 224) are unaudited and exclude BAGL unless otherwise stated

Barclays has a comprehensive Liquidity Risk Management Framework (the Liquidity Framework) for managing the Group's liquidity risk. The Liquidity Framework meets the PRA's standards and is designed to ensure the Group maintains liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk appetite. The Liquidity Framework is delivered via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Liquidity risk is managed separately at Barclays Africa Group Limited (BAGL) due to local currency and funding requirements. Unless stated otherwise, all disclosures in this section exclude BAGL and they are reported on a stand-alone basis. Adjusting for local requirements, BAGL liquidity risk is managed on a consistent basis to Barclays Group.

For further detail on liquidity risk governance and framework see page 418.

Liquidity risk stress testing

Under the Liquidity Framework, Barclays has established a Liquidity Risk Appetite (LRA) together with the appropriate limits for the management of the liquidity risk. This is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. The key expression of the liquidity risk is through internal stress testing. This involves comparing the liquidity pool with anticipated stressed net contractual and contingent outflows for each of three stress scenarios.

Liquidity Risk Appetite

The three primary liquidity stress scenarios run by the Group under its LRA and aligned to the PRA's prescribed stresses are:

- 90 day market-wide stress event;
- 30 day Barclays-specific stress event; and
- combined 30 day market-wide and Barclays-specific stress event.

Under normal market conditions, the liquidity pool is managed to be at least 100% of anticipated outflows under each of these stress scenarios. The 30 day Barclays-specific stress scenario, results in the greatest net outflows of each of the liquidity stress tests. The combined 30 day scenario assumes outflows consistent with a firm-specific stress for the first two weeks of the stress period, followed by relatively lower outflows consistent with a market-wide stress for the remainder of the stress period.

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Key LRA assumptions include:

Liquidity risk driver	Barclays specific stress
Wholesale unsecured funding	- Zero rollover of wholesale deposits, senior unsecured debt and conduit commercial paper - Prime brokerage: 100% withdrawal of excess client derivative margin and cash.
Wholesale secured funding	- Zero rollover of trades secured on less-liquid collateral - Rollover of trades secured on highly-liquid collateral, subject to haircut widening.
Deposit outflow	Substantial deposit outflows of Retail and Business Banking, Corporate Banking, Wealth and Investment Management as Barclays is seen as greater credit risk than competitors.
Funding concentration	- Additional outflows recognized against concentration of providers of wholesale secured financing - Largest less-liquid secured funding counterparty refuses to roll trades.
Intra-day liquidity	Anticipated liquidity required to support intra-day requirements at payment and settlement systems.
Intra-group	Anticipated liquidity required to support material subsidiaries, based on stand-alone stress tests.
Off-balance sheet	- Significant drawdown on committed facilities based on facility type, counterparty type and counterparty creditworthiness - Outflow of all collateral owed to counterparties but not yet called - Collateral outflows contingent upon a multi-notch credit rating downgrade of Barclays Bank PLC - Variation margin outflows due to market movements, taking into account the mismatch between collateralised and uncollateralised positions - Increase in the firm's derivative initial margin requirement.
Franchise viability	Liquidity required in order to meet outflows that are non-contractual in nature but necessary in order to support the firm's ongoing franchise (for example, market-making activities).
Mitigating actions	Monetisation of unencumbered assets that are of known liquidity value to the firm but held outside the liquidity pool (subject to haircut/valuation adjustment).

Liquidity regulation

Since June 2010, the Group has reported its liquidity position against Individual Liquidity Guidance (ILG) provided by the PRA. The PRA defines both eligible liquidity pool assets and stress outflows against reported balances.

The Group also monitors its position against anticipated Basel 3 liquidity metrics – the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of at least 12 months and has been developed to promote a sustainable maturity structure of assets and liabilities.

In January 2013, the Basel Committee on Banking Supervision published a final standard for the LCR. The European CRR requires phased compliance with LCR standard from January 2015 at minimum of 60% increasing to 100% by January 2018.

In January 2014, the BCBS published a consultation proposing revision to the NSFR standards. The minimum NSFR requirement is to be introduced in January 2018 at 100%.

The methodology for estimating the LCR and NSFR is based on an interpretation of the Basel standards and includes a number of assumptions which are subject to change prior to the implementation of CRD IV.

Based on the revised Basel standards, as at 31 December 2013, Barclays had a surplus to both of these metrics with an estimated Basel 3 LCR of 102% (2012: 126%) and an estimated Basel 3 NSFR of 110% (2012: 112%).

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Funding risk – Liquidity continued

Comparing internal and regulatory liquidity stress tests

The LRA stress scenarios, the PRA ILG and Basel 3 LCR are all broadly comparable short term stress scenarios in which the adequacy of defined liquidity resources is assessed against contractual and contingent stress outflows. The PRA ILG and the Basel 3 LCR stress tests provide an independent assessment of the Group's liquidity risk profile.

Stress Test	Barclays LRA	PRA ILG	Basel 3 LCR	Basel 3 NSFR
Time Horizon	30-90 days	3 months	30 days	12 months
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

As at 31 December 2013, the Group held eligible liquid assets in excess of 100% of stress requirements for all three LRA stress tests:

Compliance with internal and regulatory stress tests		
	Barclays' LRA (30 day Barclay specific requirement) ^a £bn	Estimated Basel 3 LCR (revised text January 2013) £bn
As at 31 December 2013		
Total eligible liquidity pool	127	130
Asset inflows	–	12
Stress outflows		
Retail and commercial deposit outflows	(47)	(60)
Wholesale funding	(33)	(23)
Net secured funding	(14)	(12)
Derivatives	(7)	(7)
Contractual credit rating downgrade exposure	(13)	(13)
Drawdowns of loan commitments	(7)	(25)
Other	(1)	–
Total stress net cash flows	(122)	(128)
Surplus	5	2
Liquidity pool as a percentage of anticipated net cash flows	104%	102%
As at 31 December 2012	129%	126%

In 2013, Barclays Group right sized its liquidity pool to reduce the large LRA and LCR surpluses to support the leverage plan and reduce the costs of surplus liquidity, while maintaining compliance with its internal liquidity risk appetite and external regulatory requirements.

Barclays plans to maintain its surplus to the internal and regulatory stress requirements at an efficient level, continuing to monitor the money markets closely, in particular for early indications of the tightening of available funding. In these conditions, the nature and severity of the stress scenarios are reassessed and appropriate action taken with respect to the liquidity pool. This may include further increasing the size of pool or monetising the pool to meet stress outflows.

Note

a Of the three stress scenarios monitored as part of the LRA, the 30 day Barclays-specific scenario results in the lowest ratio at 104% (2012: 129%). This compares to 127% (2012: 141%) under the 90 day market-wide scenario and 112% (2012: 145%) under the 30 day combined scenario.

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Liquidity pool

The Group liquidity pool as at 31 December 2013 was £127bn (2012: £150bn). During 2013, the month-end liquidity pool ranged from £127bn to £157bn (2012: £150bn to £173bn), and the month-end average balance was £144bn (2012: £162bn). The liquidity pool is held unencumbered and is not used to support payment or clearing requirements. Such requirements are treated as part of our regular business funding. The liquidity pool is intended to offset stress outflows and comprises cash and unencumbered assets set out below. The decrease of the size of the liquidity pool during 2013 is consistent with Group plans to optimise the size of the liquidity pool, within our established liquidity risk appetite framework, while maintaining compliance with regulatory requirements. The change in the composition of the liquidity pool, from cash and deposits with central banks to government bonds, was done to reduce the overall cost of the liquidity pool.

Composition of the Group liquidity pool as at 31 December 2013

	Liquidity pool £bn	Liquidity pool of which PRA eligible ^a £bn	Liquidity pool of which Basel 3 LCR eligible ^b		2012 Liquidity pool £bn
			Level 1 £bn	Level 2A £bn	
Cash and deposits with central banks^c	43	42	41	–	85
Government bonds^d					
AAA rated	52	51	52	–	40
AA+ to AA- rated	9	8	8	–	5
Other government bonds	1	–	–	–	1
Total government bonds	62	59	60	–	46
Other					
Supranational bonds and multilateral development banks	3	3	3	–	4
Agencies and agency mortgage-backed securities	10	–	5	5	7
Covered bonds (rated AA- and above)	6	–	–	6	5
Other	3	–	–	–	3
Total Other	22	3	8	11	19
Total as at 31 December 2013	127	104	109	11	
Total as at 31 December 2012	150	129	136	8	

The Group liquidity pool is well diversified by major currency and the Group monitors LRA stress scenarios for major currencies.

Liquidity pool by currency

	USD £bn	EUR £bn	GBP £bn	Other £bn	Total £bn
Liquidity pool as at 31 December 2013	31	32	38	26	127
Liquidity pool as at 31 December 2012	26	66	25	33	150

Management of the Group liquidity pool

The composition of the Group liquidity pool is efficiently managed. The maintenance of the liquidity pool increases the Group's costs as the interest expense paid on the liabilities used to fund the liquidity pool is greater than the interest income received on liquidity pool assets. This cost can be reduced by investing a greater portion of the Group liquidity pool in highly liquid assets other than cash and deposits with central banks. These assets primarily comprise government bonds and their inclusion in the liquidity pool does not compromise the liquidity position of the Group.

The composition of the liquidity pool is subject to limits set by the Board, Treasury Committee and the independent credit risk and market risk functions. In addition, the investment of the liquidity pool is monitored for concentration risk by issuer, currency, asset type and country. Given the incremental returns generated by these highly liquid assets, the risk and reward profile is continuously managed.

As at 31 December 2013, the portion of the Group liquidity pool comprised of cash and deposits with central banks reduced to £43bn (2012: £85bn) as a result of a reallocation to government bonds and other highly liquid assets.

Barclays manages the liquidity pool on a centralised basis. As at 31 December 2013, 90% of the liquidity pool was located in Barclays Bank PLC (2012: 90%) and was available to meet liquidity needs across the Group. The residual liquidity pool is held predominantly within Barclays Capital Inc. (BCI). The portion of the liquidity pool outside of Barclays Bank PLC is held against entity-specific stressed outflows and regulatory requirements. To the extent the use of this portion of the liquidity pool is restricted due to regulatory requirements, it is assumed to be unavailable to the rest of the Group.

Notes

- a £104bn of the liquidity pool is PRA eligible as per BIPRU 12.7. In addition, there are £9bn of Level 2 assets available, as per PRA's announcement in August 2013 that certain assets specified by PRA as Level 2 assets can be used on a transitional basis.
- b The LCR-eligible assets presented in this table represent only those assets which are also eligible for the Group liquidity pool and do not include any Level 2B assets as defined by the Basel Committee on Banking Supervision.
- c Of which over 95% (2012: over 95%) was placed with the Bank of England, US Federal Reserve, European Central Bank, Bank of Japan and Swiss National Bank.
- d Of which over 85% (2012: over 80%) of securities are comprised of UK, US, Japan, France, Germany, Denmark and the Netherlands.

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Funding risk – Liquidity continued

Contingent liquidity

In addition to the Group liquidity pool, Barclays has access to other unencumbered assets which provide a source of contingent liquidity. Whilst these are not relied on in the Group's LRA, a portion of these assets may be monetised in a stress to generate liquidity through use as collateral for secured funding or through outright sale.

In either a Barclays-specific or market-wide liquidity stress, liquidity available via market sources could be severely disrupted. In circumstances where market liquidity is unavailable or available only at heavily discounted prices, Barclays could generate liquidity via central bank facilities. The Group maintains a significant amount of collateral pre-positioned at central banks and available to raise funding.

For more detail on the Group's other unencumbered assets see page 216.

Funding structure

The basis for sound liquidity risk management is a solid funding structure that reduces the probability of a liquidity stress leading to an inability to meet funding obligations as they fall due. The Group's overall funding strategy is to develop a diversified funding base (both geographically and by depositor type) and maintain access to a variety of alternative funding sources, to provide protection against unexpected fluctuations, while minimising the cost of funding.

Within this, the Group aims to align the sources and uses of funding. As such, retail and commercial customer loans and advances are funded by customer deposits. Other assets together with other loans and advances and unencumbered assets are funded by long term wholesale debt and equity.

Trading portfolio assets are largely funded by repurchase agreements. The majority of reverse repurchase agreements are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities. The liquidity pool is predominantly funded through wholesale markets. These funding relationships are summarised below:

Assets ^a		Liabilities ^a	
£360m (2012: £362m)	Customer loans and advances		£366m (2012: £335m) Customer deposits ^b
£127m (2012: £150m)	Group liquidity pool		£82m (2012: £102m) <1 Year wholesale funding
			£103m (2012: £138m) >1 Year wholesale funding
£162m (2012: £163m)	Other assets		£102m (2012: £106m) Equity and other liabilities
£340m (2012: £347m)	Reverse repurchase agreements and other similar secured borrowing ^c		£340m (2012: £347m) Repurchase agreements and other similar secured borrowing ^c
£323m (2012: £466m)	Derivative financial instruments		£319m (2012: £460m) Derivative financial instruments

Deposit funding (including BAGL) (audited)

	2013			2012
	Loans and advances to customers £bn	Customer deposits £bn	Loan to deposit ratio %	Loan to deposit ratio %
Funding of loans and advances to customers				
As at 31 December 2013				
Retail and Business Banking	234	174		
Corporate Banking ^e	61	109		
Wealth and Investment Management	23	63		
Total funding excluding secured	318	346	92	102
Secured funding ^f	–	41		
Sub-total including secured funding	318	387	82	88
Retail and Business Banking, Corporate Banking and Wealth and Investment Management ^e	318	346	92	102
Investment Bank	41	20		
Head Office and Other Operations	1	–		

Trading settlement balances and cash collateral	70	62		
Total	430	428	101	110

The Group loan to deposit ratio as at 31 December 2013 was 101% (2012: 110%).

Notes

- a BAGL Group balances other than customer loans and advances of £34bn and customer deposits of £33bn are included in other assets and liabilities.
- b Excluding cash collateral and settlement balances.
- c Comprised of reverse repurchases that provide financing to customers collateralised by highly liquid securities on a short term basis or are used to settle short term inventory positions; repo financing of trading portfolio assets and matched cash collateral and settlement balances.
- d Included within Retail, Corporate Banking, Wealth and Investment Management and the Investment Bank are BAGL Group related balances totalling £34bn of loans and advances to customers funded by £33bn of customer deposits (£7bn of which is BAGL Investment Bank).
- e In addition Corporate Banking holds £15.7bn (2012: £17.6bn) loans and advances as financial assets held at fair value.
- f Secured funding includes covered bonds, public securitisations, bilateral repos and central banks borrowings. These are not included within customer deposits.

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Retail and Business Banking, Corporate Banking and Wealth and Investment Management activities are funded with customer deposits. As at 31 December 2013, the loan to deposit ratio for these businesses was 92% (2012: 102%). The excess of the Investment Bank's loans and advances over deposits is funded with long-term debt and equity. The Investment Bank does not rely on customer deposit funding from Retail and Business Banking, Corporate Banking and Wealth and Investment Management.

As at 31 December 2013, £122bn (2012: £112bn) of total customer deposits were insured through the UK Financial Services Compensation Scheme (FSCS) and other similar schemes. In addition to these customer deposits, there were £3bn (2012: £3bn) of other liabilities insured by governments.

Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Group's operations and liquidity needs. Barclays models the behaviour of both assets and liabilities to assess balance sheet funding gaps. The behavioural modelling approach reflects the forward-looking macroeconomic outlook and captures customer roll-over behaviour and optionality within a given asset or liability product. These behavioural maturities are used to determine funds transfer pricing interest rates at which businesses are rewarded and charged for sources and uses of funds.

Behavioural Maturity Profile (including BAGL)					
	Loans and advances to customers £bn	Customer deposits £bn	Customer funding surplus/(deficit) £bn	Behavioural maturity profile cash outflow/(inflow)	
				Less than one year £bn	Greater than one year £bn
As at 31 December 2013					
Retail and Business Banking	234	174	(60)	(6)	(54)
Corporate Banking	61	109	48	20	28
Wealth and Investment Management	23	63	40	6	34
Total Retail and Business Banking, Corporate Banking and Wealth and Investment Management funding excluding secured	318	346	28	20	8
As at 31 December 2012					
Retail and Business Banking	231	156	(75)	(17)	(58)
Corporate Banking	64	100	36	12	24
Wealth and Investment Management	21	54	33	7	26
Total Retail and Business Banking, Corporate Banking and Wealth and Investment Management funding excluding secured	316	310	(6)	2	(8)

The relatively low cash outflow within one year demonstrates that customer funding remains broadly matched from a behavioural perspective.

Wholesale funding

Wholesale funding relationships are summarised below:

Assets			Liabilities		
	2013 £bn	2012 £bn		2013 £bn	2012 £bn
Trading portfolio assets and other securities	63	85	Repurchase agreements	196	217
Reverse repurchase agreements	133	132			
Reverse repurchase agreements	53	44	Trading portfolio liabilities	53	44
Derivative financial instruments	323	466	Derivative financial instruments	319	460
Liquidity pool	127	150	Less than 1 year wholesale debt	82	102
Other assets ^a	119	145	Greater than 1 year wholesale debt and equity	164	194

Trading portfolio assets are largely funded by repurchase agreements. The majority of reverse repurchase agreements (i.e. secured lending) are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities (see note 19 'offsetting financial assets and liabilities' for further detail on netting).

Derivative assets and liabilities are largely matched. A substantial proportion of balance sheet derivative positions qualify for counterparty netting and the remaining portions are largely offset once netted against cash collateral received and paid.

The liquidity pool is largely funded by wholesale debt, the majority of which matures in less than one year. Other assets are largely matched by term wholesale debt and equity.

Note

- a Predominantly available for sale investments, trading portfolio assets, financial assets designated at fair value and loans and advances to banks funded by greater than one year wholesale debt and equity.

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Funding risk – Liquidity continued

Composition of wholesale funding

The Group maintains access to a variety of sources of wholesale funds in major currencies, including those available from money markets, repo markets and term investors, across a variety of distribution channels and geographies. The Group is an active participant in money markets, has direct access to US, European and Asian capital markets through its global investment banking operations and long-term investors through its clients worldwide. As a result, wholesale funding is well diversified by product, maturity, geography and major currency.

As at 31 December 2013, total wholesale funding outstanding (excluding repurchase agreements) was £186bn (2012: £240bn). £82bn (2012: £102bn) of wholesale funding matures in less than one year of which £23bn (2012: £18bn)^a relates to term funding £104bn (2012: £138bn) of wholesale funding had a residual maturity of over one year. Maturing wholesale liabilities have been replaced with customer deposits to increase the resilience and sustainability of the funding structure.

As at 31 December 2013, outstanding wholesale funding comprised £35bn (2012: £40bn) of secured funding and £151bn (2012: £199bn) of unsecured funding.

Maturity profile of wholesale funding ^b										
	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than nine months £bn	Over nine months but not more than one year £bn	Sub-total less than one year £bn	Over one year but not more than two years £bn	Over two years but not more than five years £bn	More than five years £bn	Total £bn
Deposits from banks	9.4	5.7	0.7	1.0	0.3	17.1	4.4	0.2	–	21.7
Certificates of deposit and commercial paper	2.1	10.8	6.8	5.4	2.6	27.7	0.6	0.6	0.4	29.3
Asset backed commercial paper	2.7	2.1	–	–	–	4.8	–	–	–	4.8
Senior unsecured (Public benchmark)	2.5	0.8	2.6	1.6	0.1	7.6	3.9	6.0	3.9	21.4
Senior unsecured (Privately placed)	1.0	2.6	3.5	4.2	2.4	13.7	9.4	15.6	11.5	50.2
Covered bonds/ABS	0.3	0.4	0.4	3.3	0.6	5.0	6.9	6.0	7.1	25.0
Subordinated liabilities	–	0.2	–	–	–	0.2	0.1	2.9	17.6	20.8
Other ^c	2.3	1.4	1.5	0.4	0.3	5.9	1.8	2.5	2.1	12.3
Total as at 31 December 2013	20.3	24.0	15.5	15.9	6.3	82.0	27.1	33.8	42.6	185.5
Of which secured	4.6	3.7	1.4	3.5	0.7	13.9	7.3	6.5	7.2	34.9
Of which unsecured	15.7	20.3	14.1	12.4	5.6	68.1	19.8	27.3	35.4	150.6
Total as at 31 December 2012	29.4	39.4	17.5	8.2	7.2	101.7	28.3	56.2	53.5	239.7
Of which secured	5.9	4.0	2.4	0.8	0.5	13.6	5.2	13.8	7.8	40.4
Of which unsecured	23.5	35.4	15.1	7.4	6.7	88.1	23.1	42.4	45.7	199.3

Outstanding wholesale funding includes £50bn (2012: £63bn) of privately placed senior unsecured notes in issue. These notes are issued through a variety of distribution channels including intermediaries and private banks. A large proportion of end users of these products are individual retail investors.

In 2013, Barclays repaid €3bn of funding raised through the European Central Bank's 3 year LTRO, leaving €5bn (2012: €8bn) outstanding as at 31 December 2013.

The liquidity risk of wholesale funding is carefully managed primarily through the LRA stress tests, against which the liquidity pool is held. Although not a requirement, the liquidity pool exceeded wholesale funding maturing in less than one year by £45bn (2012: £48bn).

The average maturity of wholesale funding net of the liquidity pool was at least 69 months (2012: 61 months).

Notes

- a Term funding maturities comprise public benchmark and privately placed senior unsecured notes, covered bonds/asset-backed securities (ABS) and subordinated debt where the original maturity of the instrument was more than 1 year. In addition, at 31 December 2013, £3bn of these instruments were not counted towards term financing as they had an original maturity of less than 1 year.
- b The composition of wholesale funds comprises the balance sheet reported deposits from banks, financial liabilities at fair value, debt securities in issue and subordinated liabilities, excluding cash collateral and settlement balances. It does not include collateral swaps, including participation in the Bank of England's Funding for Lending Scheme. Included within deposits from banks are £4.1bn of liabilities drawn in the European Central Bank's 3 year LTRO.
- c Primarily comprised of fair value deposits (£4.6bn) and secured financing of physical gold (£5.0bn).

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Currency composition of wholesale debt

As at 31 December 2013 the proportion of wholesale funding by major currencies was as follows:

Currency composition of wholesale funds				
	USD %	EUR %	GBP %	Other %
Deposits from banks	14	55	24	7
Certificates of deposits and commercial paper	64	19	16	1
Asset backed commercial paper	87	6	7	–
Senior unsecured	30	34	16	20
Covered bonds/ABS	22	61	16	1
Subordinated liabilities	37	28	34	1
Total as at 31 December 2013	35	36	19	10
Total as at 31 December 2012	31	38	22	9

To manage cross-currency refinancing risk Barclays manages to foreign exchange cash-flow limits, which limit risk at specific maturities. Across wholesale funding, the composition is materially unchanged.

Term financing

In 2013, term funding maturities were mostly offset by cash inflows arising from growth in customer deposits and run-off of Exit Quadrant assets, while a significant portion of the Group's 2013 funding needs were pre-funded in 2012.

The Group issued £1bn of net term funding in 2013, including \$1bn of CRD IV compliant Tier 2 capital. This issuance was an important transitional step towards Barclays end state CRD IV capital structure.

The Group has £24bn of term debt maturing in 2014 and a further £22bn maturing in 2015^a. The Group expects to issue more public wholesale debt in 2014 than in 2013 in order to maintain a stable and diverse funding base by type, currency and distribution channel.

Encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Barclays funds a portion of trading portfolio assets and other securities via repurchase agreements and other similar borrowing and pledges a portion of customer loans and advances as collateral in securitisation, covered bond and other similar secured structures. Barclays monitors the mix of secured and unsecured funding sources within the Group's funding plan and seeks to efficiently utilise available collateral to raise secured funding and meet other collateralised obligations.

As at 31 December 2013, £187bn (2012: £231bn) of the Group's assets were encumbered (excluding reverse repurchase agreements), which primarily related to firm financing of trading portfolio assets and other securities and to funding secured against loans and advances to customers. Encumbered assets have been identified via the Group's assets pledged process. For securities and commodities assets are considered encumbered if there has been legal title transfer against repurchase, stock lending and other similar secured borrowing agreements, trading portfolio liabilities or derivatives margin. Encumbered loans and advances have been identified where assets are pledged against external securitisations or covered bonds or have been used in external repurchase or other similar agreements with market counterparts or central banks. Additionally, encumbered assets include cash collateral posted. Encumbered assets do not include assets which may have been pledged for other reasons and do not include client activity.

In addition, £321bn (2012: £310bn) of the total £390bn (2012: £360bn) securities accepted as collateral, and held off-balance sheet, were on-pledged, the significant majority of which related to matched-book activity where reverse repurchase agreements are matched by repurchase agreements entered into to facilitate client activity. The remainder relates primarily to reverse repurchases used to settle trading portfolio liabilities as well as collateral posted against derivatives margin requirements.

Note

a Includes £0.3bn of bilateral secured funding in 2014 and £2bn in 2015.

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Funding risk – Liquidity continued

As at 31 December 2013, £332bn (2012: £300bn) of assets were identified as readily available. These consist of on and off-balance sheet assets that have not been identified as encumbered and are in transferable form. They include cash and securities held in the Group liquidity pool as well as additional unencumbered assets which provide a source of contingent liquidity. While these additional assets are not relied on in the Group's LRA, a portion of these assets may be monetised in a stress to generate liquidity through use as collateral for secured funding or through outright sale. Loans and advances to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions.

As at 31 December 2013, £222bn (2012: £237bn) of assets were identified as available as collateral. These assets are not subject to any restrictions on their ability to secure funding, be offered as collateral, or sold to reduce potential future funding requirements, but are not immediately available in the normal course of business in their current form. They primarily consist of loans and advances a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available because they are not in transferable form.

Not available collateral consist of assets that cannot be pledged or used as security for funding due to restrictions that prevent their pledge or use as security for funding in the normal course of business.

Derivatives and reverse repo assets relate specifically to reverse repurchase agreements, derivatives and other similar secured lending. These are shown separately as these on-balance sheet assets cannot be pledged. However, these assets can give rise to the receipt of non-cash assets which are not recognised on the balance sheet, but can be used to raise secured funding or meet additional funding requirements.

Asset encumbrance						
On-balance sheet	Assets ^a £bn	Encumbered assets	Unencumbered assets		Unencumbered – cannot be pledged as collateral	
		Assets pledged as collateral £bn	Readily available assets £bn	Available as collateral £bn	Not available as collateral £bn	Derivatives and reverse repos £bn
As at 31 December 2013						
Cash and balances at central banks	43.8	–	43.8	–	–	–
Trading portfolio assets	130.6	65.3	65.3	–	–	–
Financial assets at fair value	36.6	0.3	9.1	21.0	0.9	5.3
Derivative financial instruments	322.7	–	–	–	–	322.7
Loans and advances – banks ^b	16.6	–	5.6	4.0	7.0	–
Loans and advances – customers ^b	324.7	62.6	66.1	196.0	–	–
Cash collateral and settlement balances	91.3	50.6	–	–	40.7	–
Available for sale financial investments	86.8	8.4	74.6	0.5	3.3	–
Reverse repurchase agreements	186.0	–	–	–	–	186.0
Property plant and equipment	3.8	–	–	–	3.8	–
Items in the course of collection from other banks	1.0	–	–	–	1.0	–
Other assets	3.5	–	–	–	3.5	–
Current tax asset	0.2	–	–	–	0.2	–
Investment in associates and joint ventures	0.6	–	–	–	0.6	–
Goodwill and intangible assets	6.3	–	–	–	6.3	–
Deferred tax assets	4.8	–	–	–	4.8	–
Retirement benefit assets	–	–	–	–	–	–
Total on-balance sheet	1,259.3	187.2	264.5	221.5	72.1	514.0
Off-balance sheet						
	Collateral received £bn	Collateral received of which on-pledge £bn	Unencumbered assets		Unencumbered –cannot be pledged as collateral	
			Readily available assets £bn	Available as collateral £bn	Not available as collateral £bn	
Fair value of securities accepted as collateral	389.8	321.1	67.2	–	1.5	
Total unencumbered collateral			331.7	221.5	73.6	

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Notes

- a The amounts included in the table are for the Group excluding BAGL. The assets relating to BAGL amount to £53bn (2012: £56.2bn), of which nil (2012: £0.2bn) are encumbered assets. Securities received as collateral by BAGL of £0.7bn (2012: £0.6bn) have also been excluded.
- b Excluding cash collateral and settlement balances.

Asset encumbrance						
		Encumbered assets	Unencumbered assets		Unencumbered – cannot be pledged as collateral	
		Assets pledged as collateral	Readily available assets	Available as collateral	Not available as collateral	Derivatives and reverse repos
	Assets ^a	£bn	£bn	£bn	£bn	£bn
On-balance sheet						
As at 31 December 2012						
Cash and balances at central banks	84.6	–	84.6	–	–	–
Trading portfolio assets	143.3	85.3	58.0	–	–	–
Financial assets at fair value	43.5	8.1	6.7	22.2	0.8	5.7
Derivative financial instruments	466.4	–	–	–	–	466.4
Loans and advances – banks ^b	16.0	–	6.5	2.3	7.2	–
Loans and advances – customers ^b	325.8	72.9	40.4	212.5	–	–
Cash collateral and settlement balances	85.1	52.5	–	–	32.6	–
Available for sale financial investments	70.3	12.3	54.0	0.4	3.6	–
Reverse repurchase agreements	176.2	–	–	–	–	176.2
Property, plant and equipment	4.9	–	–	–	4.9	–
Items in the course of collection from other banks	1.1	–	–	–	1.1	–
Other assets	4.0	–	–	–	4.0	–
Current tax asset	0.2	–	–	–	0.2	–
Investment in associates and joint ventures	0.6	–	–	–	0.6	–
Goodwill and intangible assets	6.5	–	–	–	6.5	–
Deferred tax assets	3.5	–	–	–	3.5	–
Retirement benefit assets	0.1	–	–	–	0.1	–
Total on-balance sheet	1,432.1	231.1	250.2	237.4	65.1	648.3
Off-balance sheet						
			Unencumbered assets		Unencumbered – cannot be pledged as collateral	
	Collateral received	Collateral received of which on-pledge	Readily available assets	Available as collateral	Not available as collateral	
	£bn	£bn	£bn	£bn	£bn	
Fair value of securities accepted as collateral	360.5	309.5	50.1	–	0.9	
Total unencumbered collateral			300.3	237.4	66.0	

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- a The amounts included in the table are for the Group excluding BAGL. The assets relating to BAGL amount to £53bn (2012: £50.2bn), of which nil (2012: £0.2bn) are encumbered assets. Securities received as collected by BAGL of £0.7bn (2012: £0.6bn) have also been excluded.
- b Excluding cash collateral and settlement balances.

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Funding risk – Liquidity continued

Repurchase agreements and reverse repurchase agreements

Barclays enters into repurchase and other similar secured borrowing agreements to finance its trading portfolio assets. The majority of reverse repurchase agreements are matched by offsetting repurchase agreements entered into to facilitate client activity. The remainder are used to settle trading portfolio liabilities.

Due to the high quality of collateral provided against secured financing transactions, the liquidity risk associated with this activity is significantly lower than unsecured financing transactions. Nonetheless, Barclays manages to gross and net secured mismatch limits to limit refinancing risk under a severe stress scenario and a portion of the Group's liquidity pool is held against stress outflows on these positions. The Group secured mismatch limits are calibrated based on market capacity, liquidity characteristics of the collateral and risk appetite of the Group.

The cash value of repurchase and reverse repurchase transactions will typically differ from the market value of the collateral against which these transactions are secured by an amount referred to as a haircut (or overcollateralisation). Typical haircut levels vary depending on the quality of the collateral that underlies these transactions. For transactions secured against highly liquid collateral, lenders demand relatively small haircuts (typically ranging from 0-2%). For transactions secured against less liquid collateral, haircuts vary by asset class (typically ranging from 5-10% for corporate bonds and other less liquid collateral).

As at 31 December 2013, the significant majority of repurchase activity related to matched-book activity. The Group may face refinancing risk on the net maturity mismatch for matched-book activity. 76% (2012: 75%) of matched-book activity is against highly liquid collateral. Where less liquid collateral is used, net repurchase refinancing requirements are managed to longer-tenors.

Net matched-book activity^{a,b}				
Negative number represents net repurchase agreement (net liability)				
As at 31 December 2013	Less than one month £bn	One month to three months £bn	Over three months £bn	
Highly liquid	(8.9)	2.3	6.6	
Less liquid	4.3	(0.1)	(4.2)	
Total	(4.6)	2.2	2.4	
As at 31 December 2012				
Highly liquid	(14.1)	6.6	7.5	
Less liquid	5.7	(1.7)	(4.0)	
Total	(8.4)	4.9	3.5	

The residual repurchase agreement activity is the firm-financing component and reflects Barclays funding of a portion of its trading portfolio assets. The primary risk related to firm-financing activity is the inability to roll-over transactions as they mature. However, 63% (2012: 74%) of firm-financing activity was secured against highly liquid assets and the weighted average maturity of firm-financing activity secured against less liquid assets was 69 days (2012: 84 days).

Firm-financing repurchase agreements^{a,b}				
As at 31 December 2013	Less than one month £bn	One month to three months £bn	Over three months £bn	Total £bn
Highly liquid	42.8	7.9	2.9	53.6
Less liquid	20.7	2.9	7.8	31.4
Total	63.5	10.8	10.7	85.0
As at 31 December 2012				
Highly liquid	66.8	6.5	2.9	76.2
Less liquid	16.0	4.3	6.0	26.3
Total	82.8	10.8	8.9	102.5

Notes

a Highly liquid assets include government bonds, agency securities and mortgage-backed securities. Less liquid assets include asset backed securities, corporate bonds, equities and other.

b Includes collateral swaps.

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Credit ratings

In addition to monitoring and managing key metrics related to the financial strength of Barclays, we also subscribe to independent credit rating agency reviews by Standard & Poor's, Moody's, Fitch and DBRS. These ratings assess the credit worthiness of Barclays and are based on reviews of a broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting and governance.

A credit rating downgrade could result in contractual outflows to meet collateral requirements on existing contracts. Outflows related to a multiple-notch credit rating downgrade are included in the LRA stress scenarios and a portion of the liquidity pool is held against this risk. Credit ratings downgrades could also result in increased costs or reduced capacity to raise funding.

Credit ratings As at 31 December 2013	Standard & Poor's	Moody's	Fitch	DBRS
Barclays Bank PLC	A (Stable)	A2 (Negative)	A (Stable)	AA (Low) (Stable)
Long-term	A-1	P-1	F1	R-1 (mid)
Short-term	bbb+	C-/baa2	a	A (high)
Barclays PLC				
Long-term	A- (Stable)	A3 (Negative)	A (Stable)	n/a
Short-term	A-2	P-2	F1	n/a

During 2013, Barclays was downgraded one notch by Standard & Poor's, as the rating agency views increased risk for some large European banks operating in investment banking due to tightening regulation and uncertain market conditions. As a result Barclays Bank PLC's rating moved to A/A-1 from A+/A-1, and Barclays PLC's to A-/A-2 from A/A-1. Similarly, DBRS downgraded Barclays Bank PLC, to AA (Low)/R-1 (Mid) from AA/R-1 (High), mainly driven by the changing regulatory environment. The downgrades were fully reserved for in the liquidity pool and there was no significant change in deposit funding or wholesale funding. Fitch and Moody's affirmed Barclays Bank PLC and Barclays PLC ratings.

Barclays' ratings currently benefit from sovereign support assumptions made by rating agencies. Levels of sovereign supports are reflected in the difference between the standalone rating and Barclays Bank PLC's long-term rating. As regulation evolves, rating agencies have communicated their intention to remove all or part of this support over time. As a consequence, Moody's put Barclays' long-term and short-term ratings on a Negative outlook.

The table below shows contractual collateral requirements and contingent obligations following one and two notch long-term and associated short-term simultaneous downgrades across all credit rating agencies, which are fully reserved for in the liquidity pool. These numbers do not assume any management or restructuring actions that could be taken to reduce posting requirements.

Further credit rating downgrades could result in contractual outflows to meet collateral requirements on existing contracts. These outflows do not include the potential liquidity impact from loss of unsecured funding, such as from money market funds, or loss of secured funding capacity. However, unsecured and secured funding stresses are included in the LRA stress scenarios and a portion of the liquidity pool is held against these risks.

Contractual credit rating downgrade exposure (cumulative cash flow)			
As at 31 December 2013	Cumulative cash outflow		
	One-notch downgrade £bn	Two-notch downgrade £bn	
Securitisation derivatives	7	8	
Contingent liabilities	6	6	
Derivatives margining	–	1	
Liquidity facilities	1	2	
Total contractual funding or margin requirements	14	17	
As at 31 December 2012			
Securitisation derivatives	5	7	
Contingent liabilities	7	7	
Derivatives margining	–	1	
Liquidity facilities	1	2	
Total contractual funding or margin requirements	13	17	

Note

a Refers to Standard & Poor's Stand-Alone Credit Profile (SACP), Moody's Bank Financial Strength Ratio (BFSR) Baseline Credit Assessment (BCA), Fitch Viability Rating (VR) and DBRS Intrinsic Assessment (IA).

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Funding risk – Liquidity continued

[Liquidity management at BAGL Group \(audited\)](#)

Liquidity risk is managed separately at BAGL Group due to local currency, funding and regulatory requirements.

In addition to the Group liquidity pool, as at 31 December 2013, BAGL Group held £4bn (2012: £5bn) of liquidity pool assets against BAGL-specific anticipated stressed outflows. The liquidity pool consists of South African government bonds and Treasury bills.

The BAGL loan to deposit ratio as at 31 December 2013 was 103% (2012: 113%).

As at 31 December 2013, BAGL had £9bn of wholesale funding outstanding (2012: £12bn), of which £6bn matures in less than 12 months (2012: £6bn).

[Contractual maturity of financial assets and liabilities \(audited\)](#)

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the on demand column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have been included in other assets and other liabilities as the Group is not exposed to liquidity risk arising from them; any request for funds from creditors would be met by simultaneously liquidating or transferring the related investment.

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Contractual maturity of financial assets and liabilities (including BAGL) (audited)											
As at 31 December 2013	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	38,602	7,085	–	–	–	–	–	–	–	–	45,687
Items in the course of collection from other banks	894	388	–	–	–	–	–	–	–	–	1,282
Trading portfolio assets	133,069	–	–	–	–	–	–	–	–	–	133,069
Financial assets designated at fair value	1,029	12,743	654	853	415	2,270	673	1,410	1,035	16,280	37,362
Derivative financial instruments	321,590	368	163	88	32	283	480	294	545	492	324,335
Loans and advances to banks	6,558	27,698	973	538	588	295	370	109	63	661	37,853
Loans and advances to customers	30,422	92,151	7,058	7,459	8,450	30,144	27,201	45,699	60,537	121,290	430,411
Reverse repurchase agreements and other similar secured lending	21	172,401	9,119	2,335	2,583	107	–	130	–	83	186,779
Available for sale financial investments	632	2,633	3,186	2,115	5,722	9,755	14,366	14,767	24,433	14,147	91,756
Other financial assets	–	1,693	–	–	–	305	–	–	–	–	1,998
Total financial assets	532,817	317,160	21,153	13,388	17,790	43,159	43,090	62,409	86,613	152,953	1,290,532
Other assets											21,735
Total assets											1,312,267
Liabilities											
Deposits from banks	7,005	40,631	738	1,112	426	4,658	111	137	–	16	54,834
Items in the course of collection due to other banks	1,037	322	–	–	–	–	–	–	–	–	1,359
Customer accounts	293,708	102,873	8,708	5,928	6,308	3,436	1,587	2,237	1,869	1,248	427,902
Repurchase agreements and other similar secured borrowing	76	189,401	4,371	556	914	1,378	17	35	–	–	196,748
Trading portfolio liabilities	53,464	–	–	–	–	–	–	–	–	–	53,464
Financial liabilities designated at fair value	636	8,215	5,257	4,712	3,425	11,107	6,527	10,138	6,678	6,396	63,091

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Derivative financial instruments	319,361	11	11	13	6	48	157	208	583	236	320,634
Debt securities in issue	72	22,233	10,553	10,812	3,486	11,786	6,705	8,350	10,657	2,039	86,693
Subordinated liabilities	–	327	20	177	–	281	6	3,225	10,581	7,078	21,695
Other financial liabilities	–	3,471	–	–	–	1,478	–	–	–	–	4,949
Total financial liabilities	675,359	367,484	29,658	23,310	14,565	34,172	15,110	24,330	30,368	17,013	1,231,369
Other liabilities											16,949
Total liabilities											1,248,318
Cumulative liquidity gap	(142,542)	(192,866)	(201,371)	(211,293)	(208,068)	(199,081)	(171,101)	(133,022)	(76,777)	59,163	63,949

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Contractual maturity of financial assets and liabilities (including BAGL) (audited)											
As at 31 December 2012	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	42,435	43,756	–	–	–	–	–	–	–	–	86,191
Items in the course of collection from other banks	1,242	231	–	–	–	–	–	–	–	–	1,473
Trading portfolio assets	146,352	–	–	–	–	–	–	–	–	–	146,352
Financial assets designated at fair value	1,268	15,951	881	635	655	2,054	2,071	1,283	1,861	18,592	45,251
Derivative financial instruments	465,357	169	49	32	24	355	643	1,349	717	461	469,156
Loans and advances to banks	4,646	32,761	236	259	708	933	152	136	172	459	40,462
Loans and advances to customers	37,503	76,112	7,971	8,399	8,844	26,789	28,141	46,338	64,445	119,364	423,906
Reverse repurchase agreements and other similar secured lending	36	164,866	8,709	1,388	1,224	66	82	117	12	22	176,522
Available for sale financial investments	333	4,338	2,770	5,230	4,725	10,805	5,263	14,145	15,189	12,311	75,109
Other financial assets	–	1,615	–	–	–	386	–	–	–	–	2,001
Total financial assets	699,172	339,799	20,616	15,943	16,180	41,388	36,352	63,368	82,396	151,209	1,466,423
Other assets											21,912
Total assets											1,488,335
Liabilities											
Deposits from banks	8,619	57,101	1,664	532	312	1,617	5,591	334	229	1,013	77,012
Items in the course of collection due to other banks	1,463	124	–	–	–	–	–	–	–	–	1,587
Customer accounts	255,747	90,490	9,810	8,086	4,572	11,148	865	1,925	1,981	787	385,411
Repurchase agreements and other similar secured borrowing ^a	394	206,355	5,331	2,321	1,421	47	780	529	–	–	217,178
Trading portfolio liabilities	44,794	–	–	–	–	–	–	–	–	–	44,794
Financial liabilities designated at fair value	1,434	7,982	6,278	3,929	3,249	11,977	11,922	11,248	10,145	8,855	77,019
Derivative financial instruments	459,587	63	32	29	19	333	337	507	1,074	740	462,721
Debt securities in issue	1,467	38,850	10,796	4,778	4,350	16,388	13,046	14,965	12,208	2,677	119,525
Subordinated											

liabilities	–	877	–	–	92	363	400	1,840	11,883	8,563	24,018
Other financial liabilities	–	4,080	–	–	–	641	–	–	–	–	4,721
Total financial liabilities	773,505	405,922	33,911	19,675	14,015	42,514	32,941	31,348	37,520	22,635	1,413,986
Other liabilities											14,363
Total liabilities											1,428,349
Cumulative liquidity gap	(74,333)	(140,456)	(153,751)	(157,483)	(155,318)	(156,444)	(153,033)	(121,013)	(76,137)	52,437	59,986

Expected maturity dates do not differ significantly from the contract dates, except for:

- Trading portfolio assets and liabilities and derivative financial instruments, which may not be held to maturity as part of the Group's trading strategies;
- Retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – both numerically and by depositor type (see Behavioural maturity profile on page 213; and
- Financial assets designated at fair value held in respect of linked liabilities, which are managed with the associated liabilities.

Note

a Balances have been revised to better reflect the contractual maturity of repurchase agreements.

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Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values).

The balances in the below table do not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

Derivative financial instruments held for trading and trading portfolio liabilities are included in the on demand column at their fair value.

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as the Group is not exposed to liquidity risk arising from them.

Contractual maturity of financial liabilities – undiscounted (including BAGL) (audited)					
	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Deposits from banks	7,005	42,923	4,956	70	54,954
Items in the course of collection due to other banks	1,037	333	–	–	1,370
Customer accounts	293,708	124,023	8,175	5,077	430,983
Repurchase agreements and other similar secured lending	76	195,246	1,431	–	196,753
Trading portfolio liabilities	53,464	–	–	–	53,464
Financial liabilities designated at fair value	636	21,659	29,037	20,777	72,109
Derivative financial instruments	319,361	45	450	1,246	321,102
Debt securities in issue	72	48,333	29,192	14,813	92,410
Subordinated liabilities	–	1,468	7,082	19,117	27,667
Other financial liabilities	–	3,471	1,478	–	4,949
Total financial liabilities	675,359	437,501	81,801	61,100	1,255,761
At 31 December 2012					
Deposits from banks	8,619	59,677	7,629	1,267	77,192
Items in the course of collection due to other banks	1,463	124	–	–	1,587
Customer accounts	255,747	113,220	14,492	3,624	387,083
Repurchase agreements and other similar secured lending	394	215,435	1,357	–	217,186
Trading portfolio liabilities	44,794	–	–	–	44,794
Financial liabilities designated at fair value	1,434	21,480	35,886	24,301	83,101
Derivative financial instruments	459,587	144	1,193	2,079	463,003
Debt securities in issue	1,467	60,396	46,742	16,566	125,171
Subordinated liabilities	–	1,948	6,284	24,266	32,498
Other financial liabilities	–	4,080	641	–	4,721
Total financial liabilities	773,505	476,504	114,224	72,103	1,436,336

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Funding risk – Liquidity continued

Maturity analysis of off-balance sheet commitments received (including BAGL) ^a					
	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Guarantees, letters of credit and credit insurance	10,114	181	644	155	11,094
Forward starting repurchase agreements	–	14,334	–	–	14,334
Total off balance sheet commitments received	10,114	14,515	644	155	25,428
As at 31 December 2012					
Guarantees, letters of credit and credit insurance	9,108	207	760	303	10,378
Forward starting repurchase agreements	–	22,831	–	–	22,831
Total off balance sheet commitments received	9,108	23,038	760	303	33,209
Maturity analysis of off-balance sheet commitments given (including BAGL) (audited) ^a					
	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
As at 31 December 2013					
Contingent liabilities	17,873	1,583	1,174	554	21,184
Documentary credits and other short term trade related transactions	504	188	88	–	780
Forward starting reverse repurchase agreements	–	19,936	–	–	19,936
Standby facilities, credit lines and other commitments	247,045	3,845	3,514	451	254,855
Total off balance sheet commitments given	265,422	25,552	4,776	1,005	296,755
As at 31 December 2012					
Contingent liabilities	18,419	2,123	1,077	642	22,261
Documentary credits and other short term trade related transactions	134	732	111	50	1,027
Forward starting reverse repurchase agreements	–	23,549	–	–	23,549
Standby facilities, credit lines and other commitments	239,881	4,459	3,045	431	247,816
Total off balance sheet commitments given	258,434	30,863	4,233	1,123	294,653

Note

a The presentation of the tables for off balances sheet commitments received and given has been enhanced in line with the Enhanced Disclosure Taskforce recommendations.

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Risk review > Operational risk



Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events.

All disclosures in this section (page 225) are unaudited

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

The Operational Principal Risk comprises the following Key Risks: CyberSecurity, External Suppliers, Financial Reporting, Fraud, Information, Legal, Payments, People, Premises and Security, Product, Regulatory, Taxation, Technology and Transaction Operations. For definitions of these key risks see page 415.

Operational risk profile

The Barclays operational risk profile in 2013 was dominated by further charges of £1,350m (2012: £1,600m) for PPI and interest rate hedging product redress of £650m (2012: £850m). In response to these and other historical issues, and following publication of the Salz review, work continues to enhance the internal control and risk management framework (see the Risk Management section on page 416) with the creation of a new Board-level committee charged with specific oversight of operational and conduct risks, reputational matters and the citizenship strategy.

Within operational risk a high proportion of risk events have a low associated financial cost and a very small proportion of operational risk events will have a material impact on the financial results of the Group. In 2013 79.2% of the Group's net reportable operational risk losses had a value of £50,000 or less (2012: 74.7%) and accounted for only 1.8% (2012: 1.3%) of the Group's total net loss impact.

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

The analysis below presents Barclays operational risk events by Basel 2 category. There has been a slight reduction in the proportion of losses by amount within the Clients, Products and Business Practices category to 90.0% (2012: 92.2%), but this is still heavily impacted by provisions for PPI and interest rate hedging product redress. Execution, Delivery and Process Management impacts increased to 5.2% (2012: 3.7%). These events are typical of the banking industry as a whole where high volumes of transactions are processed on a daily basis. These are often fully or partially recovered, resulting in low value net losses. External Fraud with 63% (2012: 41%), is the category with the highest frequency of events where high volume, low value events are also consistent with industry experience, driven by debit and credit card fraud.

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

For further information see Risk Management section (pages 415 to 417).

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

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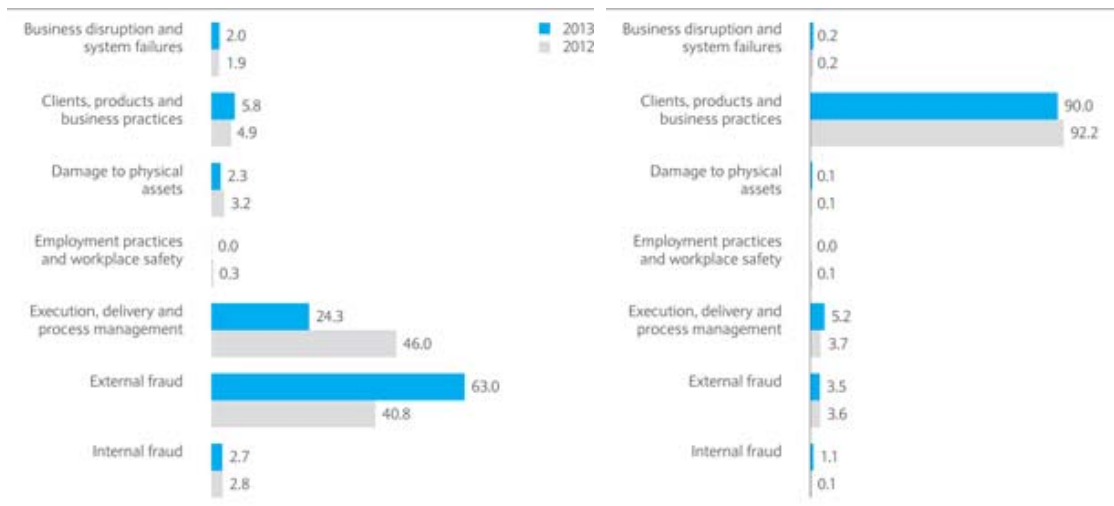
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Risk review > Reputation risk



Reputation risk is the risk of damage to Barclays brand arising from any association, action or inaction which is perceived by stakeholders (e.g. customers, clients, colleagues, shareholders, regulators, opinion formers) to be inappropriate or unethical.

All disclosures in this section (pages 226 and 227) are unaudited

Subsequent erosion of the bank's brand reduces the attractiveness of Barclays to those stakeholders and, therefore, the ability to achieve the Group's goals and business purpose.

The cost of reputation risk could manifest itself in one, or a combination of, the following outcomes: negative publicity; erosion of customer/client confidence; loss of revenue; litigation; regulatory or legislative action; loss of existing and potential client business; reduced internal morale; and difficulties in recruiting the talent required to deliver our commitments. Ultimately, it may destroy long-term shareholder value.

Reputation risk is pervasive in nature and may arise for a wide variety of reasons, real or perceived, for example:

- Failure to act in accordance with our stated values, standards and policies;
- Association with illegal activity or governance or regulatory breaches;
- Failure of technical systems and processes;
- Association with controversial clients or sectors; and
- Association with controversial business decisions or conduct relating to products, service provision, acquisitions, and employment practices.

Barclays' reputation may also be impacted negatively by the standing of the banking and financial industry generally with stakeholders. Poor practice or controversy perpetrated by other banks affects the sector as a whole.

As reputation risk arises from a real or perceived failure to comply with expected norms, which are likely to change over time, the situation is not static. Today's decisions may be judged tomorrow by different standards and this needs to be factored into our risk culture, evaluation and sanctioning procedures. Reputation risk is also pervasive, it can arise anywhere in the organisation, and management of it requires more subjective judgement than many other risks.

Barclays experienced a number of events negatively impacting its reputation in 2013, some of which arose as a result of decisions and behaviours which occurred in prior years. For example, Barclays' participation in the submission of London interbank lending rates (LIBOR) between 2005 and 2009 fell short of the high standards by which we aim to conduct business. Barclays let down its customers and clients and regrets that these actions harmed trust and confidence among our stakeholders. While the findings involved only a relatively small number of the Group's 140,000 employees, Barclays has fully acknowledged and accepted responsibility for this past

Barclays also took the decision to exit client relationships in the Money Service Business (MSB) sector because of financial crime and regulatory risks in the sector. Although we consider that this decision was necessary from a regulatory perspective, unfortunately it has impacted on businesses in this sector and the customers they serve.

Lessons learnt and remediation activity

Barclays has undertaken a range of initiatives to strengthen governance, drive positive cultural change through the organisation and apply a responsible and consistent 'lens' to decision-making.

In 2013, reputation risk was elevated by Barclays to Principal Risk status in acknowledgement of its significance for the business. Governance of all Principal and Key Risks is being revised and strengthened as part of the Transform initiative and in 2014 has been aligned with the new Enterprise Risk Management Framework, which will ensure all risks are managed in a co-ordinated manner according to consistent parameters.

Governance around the management of reputation risk is designed to promote such a consistent approach and a risk-aware culture across our organisation globally. Every member of staff must take responsibility for managing reputation risk associated with their decisions and actions. The implementation of The Barclays Way, the bank's global code of conduct launched in October 2013, encourages Barclays' colleagues to speak up if they encounter decisions or behaviours which are not in keeping with Barclays' purpose and values, and promotes a more open culture conducive to the identification, management and reporting of reputation and other risks. Colleagues in all parts of the bank have attended values workshops and are required to attest annually to The Barclays Way, which explains how Barclays' values and desired behaviours should be put into practice at work.

Where individuals are confronted by a decision which appears to have wider reputational consequences, they are supported by a clear set of processes outlined in the Barclays Reputation Risk Framework that articulates how businesses and functions should identify and manage this risk, including how to escalate an issue. The objective is to ensure that all decision-making includes an evaluation of the reputation risk potential and that, where material risk is identified, this is managed at the right level of seniority and in a timely way.

conduct. With interest rate hedging products, Barclays recognises that we have not met the standards expected of us by our regulator and customers in some cases concerning small and medium-sized enterprises.

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Difficult decisions or dilemmas are referred initially to a business-level committee of senior executives familiar with the reputation risk profile and track record of their business area. If the issue is judged to be outside the scope of their authority, e.g. due to the materiality of the risk concerned or that it affects multiple business areas, then it can be escalated to the Barclays Reputation Committee. In 2013, this committee was re-designated a sub-committee of the new Conduct and Reputation Risk Committee (CRRC) chaired by Barclays' Head of Compliance and comprising Executive Committee-level representatives from Barclays businesses and functions. The CRRC reports to the Board Conduct, Reputation and Operational Risk Committee (BCRORC), which maintains Board-level oversight of non-financial Principal Risks.

The strategic review of the business in February 2013, explicitly considered reputation risk. The focus was on how we deliver returns, as well as what returns may be delivered. The analysis assessed each business against a range of criteria, including market attractiveness, competitor positioning, regulation, and reputation risk – which was assessed using the lens of Barclays' purpose and values. This review incorporated the earlier review of reputation risk associated with Corporate and Investment Banking business lines and resulted in Barclays' exit from some businesses, including the Structured Capital Markets tax-related business unit. The view was that, while many tax services provided to clients are not controversial, there were some that relied on sophisticated and complex structures where transactions were carried out with the primary objective of accessing the tax benefits. Although this activity is legal, it was considered incompatible with the Group's purpose and published tax principles.

A further review of Barclays Wealth and Investment Management identified over 130 countries in which the business would no longer seek new clients. The review was designed to ensure alignment of the business to Barclays' purpose and values, reduce complexity and ensure we are well-placed to compete in a wealth management industry that has fundamentally changed.

On a more operational level, in 2013 we made the decision to drop using premium rate telephone numbers in the UK. As part of Which?'s campaign against the use of premium rate numbers, Barclays and Barclaycard committed to switching from more costly phone lines to local rate numbers, which are included in mobile phone packages and are free for customers using a landline. Barclays was the first financial services company to commit to do this.

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Risk review > Conduct risk



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

All disclosures in this section (pages 228 and 229) are unaudited

In 2013 there were a number of conduct risk issues affecting the Group, where Barclays conduct has not met the expectations of regulators and other stakeholders and where the consequences are likely to extend into 2014 and beyond. These include participation in benchmark rates, interest rate hedging products and Payment Protection Insurance.

The lessons learnt from these events and our strategic intent to become the 'Go-To' bank has influenced our determination to put customer needs and market integrity at the heart of our decision making and business activities.

In January 2013 Barclays inceptioned a Conduct Risk Programme to drive change in Barclays' culture and business practices to better align them with Barclays' aim to help customers achieve their

ambitions in the right way. It is establishing a conduct risk framework to support the business and cultural changes required to take a more proactive and forward looking approach, building good outcomes into business models, provide risk management of conduct risks and appropriate governance and oversight.

Over the year Barclays has developed its approach to identifying, evaluating and managing conduct risk and introduced a new principal risk for conduct risk within the EMRF. This is underpinned by six underlying key risks which focus on potential detriment to customers or market integrity across Barclays' end to end operations. Development of the Key Risk Framework will continue in 2014 with implementation of the complete framework planned to be complete by the end of the year.

Principal risk framework – Defines Conduct Risk, Risk Appetite and Roles and Responsibilities

The Six Conduct Risk Key Risks:

Business Model & Strategy

Is our current and future business robust, resilient and sustainable?

Governance & Culture

Is our business run in the right way?

Product Design

Are the products and services we offer designed properly?

Transaction Servicing

Are the right products sold in the right way?

Customer Servicing

Are our new and existing customer expectations managed and met in the right way?

Financial Crime

Are we effectively protecting our business, our clients and market integrity?

The Principal Risk Framework targets 10 outcomes, which are positive indicators that Barclays is putting its clients and customers and market integrity at the heart of its business.

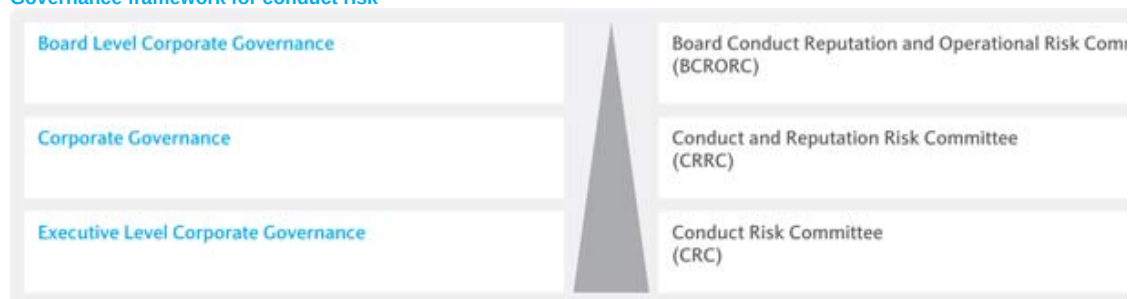
- 1 Our culture places customer interests at the heart of our strategy, planning, decision making and judgements.
- 2 Our strategy is to develop long term banking relationships with our customers by providing banking products and services that meet their needs and do not cause detriment.
- 3 We do not disadvantage or exploit customers, customer segments, or markets. We do not distort market competition.
- 4 We proactively identify conduct risks and intervene before they crystallise by managing, escalating and mitigating them promptly.
- 5 Our products, services and distribution channels are designed, monitored and managed to provide value, accessibility and to meet the needs of our customers.
- 6 We provide banking products and services that meet our customers' expectations and perform as represented. Our representations are accurate and comprehensible so our customers understand the products and services they are purchasing.
- 7 We address any customer detriment and dissatisfaction in a timely and fair manner.
- 8 We safeguard the privacy of personal data.
- 9 We do not conduct or facilitate market abuse.
- 10 We do not conduct or facilitate financial crime.

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In 2013 businesses across Barclays began conduct risk assessments to evaluate how their business models and strategy might impact customers and markets and generate poor outcomes and the action that should be taken to address this risk. See the Business review section on pages 18 to 45 for more information on how individual businesses have taken the conduct agenda forward.

Barclays has also established a new conduct risk governance structure. This will provide the Board with relevant information about how conduct risks are being identified and managed, including whether controls are designed and operating effectively. For more information on the management of conduct risk see the Governance in Action example relating to conduct risk in the Governance Report on page 74.

Governance framework for conduct risk



The CRC oversees Barclays' commitment to managing conduct risks and working towards delivering positive outcomes. Its responsibilities include investigation, consideration of areas of potential conduct risk, review of Barclays-wide Conduct Key Risk Profiles and review and challenge of conduct risk policies and standards.

The CRRC reviews and monitors the effectiveness of Barclays' management of Conduct and Reputational risk. Its responsibilities include review, challenge and recommendation of the Conduct and Reputational risk tolerance and appetite to the BCRORC, annual review of the frameworks and associated policies, review of performance against Conduct risk appetite and escalation of conduct risks, at its discretion, to the BCRORC.

The BCRORC is a committee of the Board of Directors of Barclays PLC and has the authority to investigate matters of conduct, reputational and operational risk Barclays-wide. Its responsibilities include review and approval of the Conduct risk appetite, governance and oversight of the management of Conduct risk, ensuring that the potential conduct and reputation impact of significant business decisions has been fully considered.

During 2014 the conduct risk programme will continue to develop the conduct risk framework, including the development of risk indicators and reporting and will support Barclays to make the important changes to the way it operates, such as through provision of training and guidance.

Barclays' approach to managing conduct risk has been developed in line with the regulatory expectations of the Financial Conduct Authority (FCA) and is subject to assessment by the FCA through its Firm Systematic Framework. Periodic discussions have been held with the FCA throughout the year.

Barclays approach to promoting good customer outcomes and market integrity is consistent with the 'Barclays Way' – the new employee code of conduct adopted in 2013.

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Supervision and regulation

All disclosures in this section (pages 230 to 235) are unaudited

Supervision of the Group

The Group's operations, including its overseas offices, subsidiaries and associates, are subject to a significant body of rules and regulations that are a condition for authorisation to conduct banking and financial services business. These apply to business operations and affect financial returns and include reserve and reporting requirements and prudential and conduct of business regulations. These requirements are set by the relevant central banks and regulatory authorities that supervise the Group in the jurisdictions in which it operates. The requirements reflect global standards developed by, among others, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. They also reflect requirements of or derived from EU legislation.

Under the Financial Services Act 2012, the Bank of England has responsibility for monitoring the financial system as a whole and the system of regulation in the UK has been reorganised. Since 1 April 2013, the regulation and supervision of the Group has been divided between the Prudential Regulation Authority (PRA) – which is established as part of the Bank of England – and the Financial Conduct Authority (FCA). In addition, the Financial Policy Committee (FPC) of the Bank of England has significant influence on the prudential requirements that may be imposed on the banking system through powers of direction and recommendation. The FPC has direction powers over sectoral capital requirements which the FPC can set in relation to exposures to specific sectors judged to pose a risk to the financial system as a whole. The government has also proposed to make the FPC responsible for the Basel III countercyclical capital buffer, introduced in the EU under the Capital Requirements Directive and Regulation (CRD).

The Financial Services and Markets Act 2000 (FSMA) as amended remains the principal statute under which financial institutions are regulated in the UK. Barclays Bank PLC is authorised under FSMA to carry on a range of regulated activities within the UK and is authorised and subject to solo and consolidated prudential supervision by the PRA and subject to conduct regulation and supervision by the FCA. Firms are subject to a rolling programme of continuous, intensive and assertive engagement on prudential and conduct matters.

In its role as supervisor, the PRA seeks to maintain the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers and the financial system. The PRA's continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

The regulation and supervision of conduct matters is the responsibility of the FCA. FCA regulation of the Group is carried out through a combination of continuous assessment over rolling two-year periods; regular thematic and project work based on the FCA's sector assessments, which analyse the different areas of the market and the risks that may lie ahead; and responding to crystallised risks, seeking to ensure remediation as appropriate.

The Banking Act 2009 (the Banking Act) provides a regime to allow the Bank of England (or, in certain circumstances, HM Treasury) to resolve failing banks in the UK, in consultation with the PRA and HM Treasury as appropriate. Under the Banking Act, these authorities are given powers, including (a) the power to make share transfer orders pursuant to which all or some of the securities issued by a UK bank may be transferred to a commercial purchaser or the UK government; and (b) the power to transfer all or some of the property, rights and liabilities of a UK bank to a commercial purchaser or Bank of England entity. A share transfer order can extend to a wide range of securities including shares and bonds issued by a UK bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such shares and bonds. From 1 April 2013, certain of these powers were extended to companies within the same group as a UK bank. The Act also gives the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers. The Banking Act powers apply regardless of any contractual restrictions and compensation may be payable in the context of both share transfer orders and property appropriation. These resolution powers were supplemented with a bail-in power through the Financial Services (Banking Reform) Act 2013. This power allows for the cancellation or modification of a liability owed by the bank, with the exception of 'excluded liabilities'. Excluded liabilities include: deposits protected under a deposit insurance scheme, secured liabilities, client assets and assets with an original maturity of less than seven days owed to a credit institution or investment firm among others.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for the Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

The Financial Services Act 2010, among other things, requires the UK regulators to make rules about remuneration and to require regulated firms to have a remuneration policy that is consistent with effective risk management. The UK regulators are mandated to make rules that require authorised firms (or a subset of authorised firms) to draw up recovery and resolution plans and to consult with HM Treasury and the Bank of England on the adequacy of firms plans. This Act also allows the FCA to make rules requiring firms to operate a collective consumer redress scheme to deal with cases of widespread failure by regulated firms to meet regulatory requirements that may have created consumer detriment.

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In addition to establishing the FPC, PRA and FCA, the Financial Services Act 2012 among other things, clarifies responsibilities between HM Treasury and the Bank of England in the event of a financial crisis by giving the Chancellor of the Exchequer powers to direct the Bank of England where public funds are at risk and there is a serious threat to financial stability; it establishes the objectives and accountabilities of the new regulatory bodies; amends the Threshold Conditions for authorisation; and gives the new bodies additional powers, including powers of direction over unregulated parent undertakings (such as Barclays PLC) where this is necessary to ensure effective consolidated supervision of the Group; and a power for the FCA to make temporary product intervention rules for a maximum period of six months, if necessary without consultation. The Act also gives the FCA the power to set rules in relation to the setting of benchmarks and creates a new criminal offence relating to the making of a false or misleading statement, or the creation of a false or misleading impression, in connection with the setting of a benchmark.

In addition to providing for the bail-in stabilisation powers referred to above, the Financial Services (Banking Reform Act) 2013 (the 2013 Act) gives the UK authorities powers to implement the recommendations of the Independent Commission on Banking by requiring, amongst other things: (i) the separation of the retail banking activities of UK banks in the UK and European Economic Area (EEA) in a legally distinct, operationally separate and economically independent entity (so called ring fencing); (ii) the increase of the loss-absorbing capacity of ring-fenced banks and UK headquartered global systemically important banks to levels higher than required by the CRD and (iii) preference to deposits protected under the Financial Services Compensation Scheme if a bank enters insolvency.

The 2013 Act also implements key recommendations of the Parliamentary Commission on Banking Standards, which was asked by the government to review professional standards and culture in the banking industry. Recommendations that have been implemented include: (i) the establishment of a reserve power for the PRA to enforce full separation of UK banks under certain circumstances; (ii) the creation of a 'senior managers' regime for senior individuals in the banking and investment banking sectors to ensure better accountability for decisions made; (iii) the establishment of a criminal offence of causing a financial institution to fail; and (iv) the establishment of a regulator for payment systems.

The 2013 Act is primarily an enabling statute which provides HM Treasury with the requisite powers to implement the policy underlying the legislation through secondary legislation. The UK Government has published draft secondary legislation. The UK Government intends that both primary and secondary legislation will be in place by May 2015 and that UK banks will be required to be compliant with the structural reform requirements by 1 January 2019. Other elements of the Act will enter into force before that date.

Banks, insurance companies and other financial institutions in the UK are subject to a single compensation scheme (the Financial Services Compensation Scheme – FSCS) which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the EEA

Regulation in the UK is considerably shaped and influenced by EU directives and regulations. These provide the structure of the European Single Market, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one EU member state to conduct banking or investment business through the establishment of branches or by the provision of services on a cross-border basis in other member states without the need for local authorisation. Barclays operations in Europe are authorised and regulated by a combination of both home and host regulators.

Barclays operations in South Africa, including Barclays Africa Group Limited, are supervised and regulated by mainly the South African Reserve Bank (SARB), the Financial Services Board (FSB) as well as the Department of Trade and Industry (DTI). SARB oversees the banking industry and follows a risk-based approach to supervision, whilst the FSB oversees financial services such as insurance and investment business and focuses on enhancing consumer protection and regulating market conduct. The DTI regulates consumer credit through the National Credit Act (NCA) 2005, as well as other aspects of consumer protection not regulated under the jurisdiction of the FSB through the Consumer Protection Act (CPA) 2008. It is intended that regulatory responsibilities in South Africa will in future be divided between the SARB which will be responsible for prudential regulation and the FSB will be responsible for matters of market conduct. The precise timing for the move to 'twin peaks' regulation remains to be determined.

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US subsidiaries are subject to a comprehensive regulatory framework involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956 (BHC Act), the USA PATRIOT Act of 2001 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA). This framework regulates the activities of Barclays, including its US banking subsidiaries and the US branches of Barclays Bank PLC, as well as imposing prudential restrictions, such as limits on extensions of credit by the Barclays Bank PLC's US branches and the US banking subsidiaries to a single borrower and to affiliates. The New York and Florida branches of Barclays Bank PLC are subject to extensive federal and state supervision and regulation by the Board of Governors of the Federal Reserve System (FRB) and, as applicable, the New York State Department of Financial Services and the Florida Office of Financial Regulation. Barclays Bank Delaware, a Delaware chartered commercial bank, is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Delaware Office of the State Bank Commissioner and the Consumer Financial Protection Bureau. The deposits of Barclays Bank Delaware are insured by the FDIC. Barclays Wealth Trustees (US) NA is an uninsured non-depository trust company chartered and supervised by the Office of the Comptroller of the Currency. The licensing authority of each US branch of Barclays Bank PLC has the authority, in certain circumstances, to take possession of the business and property of Barclays Bank PLC located in the state of the office it licenses or to revoke or suspend such licence. Such circumstances generally include violations of law, unsafe business practices and insolvency.

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which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group's results. Further details can be found in Note 28 on page 333.

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Supervision and regulation continued

Barclays PLC and Barclays Bank PLC are bank holding companies registered with the FRB, which exercises umbrella supervisory authority over Barclays US operations. Barclays PLC and Barclays Bank PLC have each elected to be treated as a financial holding company under the BHC Act. Financial holding companies may generally engage in a broader range of financial and related activities than are permitted to registered bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. Financial holding companies such as Barclays PLC and Barclays Bank PLC are required to meet or exceed certain capital ratios and be deemed to be 'well managed', and Barclays Bank Delaware and Barclays Wealth Trustees (US) NA are each required to meet certain capital requirements and be deemed to be 'well managed'. In addition, Barclays Bank Delaware must have at least a 'satisfactory' rating under the Community Reinvestment Act of 1977 (CRA). Entities ceasing to meet any of these requirements, are allotted a period of time in which to restore capital levels or the management or CRA rating. Failure to meet such requirements during the allotted period of time may result in such institutions being prohibited from engaging in new types of financial activities or making certain acquisitions in the US. If the capital level or rating is not restored, the Group may ultimately be required by the FRB to cease certain activities in the United States. More generally, Barclays US activities and operations may be subject to other requirements and restrictions by the FRB under its supervisory authority, including with respect to safety and soundness.

Under the Federal Deposit Insurance Act, as amended by the DFA, Barclays is required to act as a source of financial strength for Barclays Bank Delaware. This could, among other things, require Barclays to inject capital into Barclays Bank Delaware if it fails to meet applicable regulatory capital requirements.

A major focus of US government policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. Regulations applicable to US operations of Barclays Bank PLC and its subsidiaries impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to ensure compliance with US economic sanctions against designated foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution.

Barclays US securities broker/dealer, investment advisory and investment banking operations are also subject to ongoing supervision and regulation by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations (SROs) as part of a comprehensive scheme of regulation of all aspects of the securities and commodities business under the US federal and state securities laws. Similarly, Barclays US commodity futures and options-related operations are subject to ongoing supervision and regulation by the Commodity Futures Trading Commission (CTFC), the

[Regulatory developments](#)

The regulatory change generated by the financial crisis is having and will continue to have a substantial impact on all financial institutions, including the Group. Regulatory change is being pursued at a number of levels, globally notably through the G20, Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), regionally through the European Union and nationally, especially in the UK and US. Further changes to prudential requirements and further refinements to the definitions of capital and liquid assets may affect the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. Similarly, increased requirements in relation to capital markets activities and to market conduct requirements may affect the Group's planned activities and could increase costs and thereby contribute to adverse impacts on the Group's earnings.

[Global](#)

The programme of reform of the global regulatory framework that was agreed by G20 Heads of Government in April 2009 has continued to be taken forward during 2013.

The FSB has been designated by the G20 as the body responsible for co-ordinating the delivery of the global reform programme. It has focused particularly on the risks posed by systemically important financial institutions. In 2011, G20 Heads of Government adopted FSB proposals to reform the regulation of globally systemically important financial institutions (G-SIFIs). A key element of this programme is that G-SIFIs should be capable of being resolved without recourse to taxpayer support. Barclays has been designated a G-SIFI by the FSB. G-SIFIs will be subject to a number of requirements, including additional loss absorption capacity above that required by Basel 3 standards (see below). The surcharges rise in increments from 1% to 2.5% of risk-weighted assets (with an empty category of 3.5% for institutions that increase the extent of the systemic risk they pose which is intended to discourage institutions from developing their business in a way that heightens their systemic nature). This additional buffer must be met with common equity.

In its November 2013 list of G-SIFIs, the FSB placed Barclays in a category that would require it to meet a 2% surcharge. The additional loss absorbency requirements will apply to those banks identified in November 2014 as globally systemically important and will be phased in starting in January 2016, with full implementation by January 2019. G-SIFIs must also meet the higher supervisory expectations for data aggregation capabilities by January 2016. In the EU the requirements for a systemic risk buffer will be implemented through the CRD.

The BCBS issued the final guidelines on Basel 3 capital and liquidity standards in June 2011, with revisions to counterparty credit risk in July and November 2011. It has continued to refine elements of this package through 2013, notably in relation to regulatory liquidity where revisions were agreed in January 2013 to the definitions of high quality liquid assets and net cash outflows for the purpose of calculating the Liquidity Coverage Ratio, as well as establishing a timetable for phasing-in the standard from January 2016. Amendments to the Basel 3 leverage ratio and liquidity frameworks were issued in

National Futures Association and other SROs.

The credit card activities of the Group in the US are subject to the Credit Card Accountability, Responsibility and Disclosure Act of 2009 which prohibits certain pricing and marketing practices for consumer credit card accounts. Among the numerous provisions are those that prohibit increasing rates on existing balances and over limit fees in most instances, restrict increasing fees and rates prospectively, restrict what penalty fees can be assessed, regulate how payments are to be allocated to different balances and how the billing process is to work, and governs all communications to cardholders.

January 2014. The requirements of Basel 3 as a whole are subject to a number of transitional provisions that run to the end of 2018. The Group is, however, primarily subject to the EU's implementation of the Basel 3 standard through the CRD (see below). An assessment of the likely impact of the Basel 3 capital, leverage and liquidity requirements as implemented by the CRD and interpreted by the PRA can be found in the analysis of funding risk in relation to capital and to liquidity (pages 199 to 224).

The BCBS also maintains a number of active work streams that will affect the Group. These include a fundamental review of the trading book where a second consultation on enhanced capital standards was issued in October 2013 and further work on large exposures. The Committee also continues to focus on the consistency of risk weighting of assets and explaining the variations between banks. A second consultation on enhanced standards was also held in relation to the

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securitisation framework. The results of this work are expected in 2014. In conjunction with the International Organization of Securities Commissions, the BCBS issued enhanced standards for margin requirements for non-centrally cleared derivatives in September. The BCBS also issued risk management guidelines related to anti-money laundering and terrorist financing in January 2014. These and other developments may further increase the capital required by the Group to transact affected business and/or affect the ability of the Group to undertake certain transactions.

European Union

The EU continues to develop its regulatory structure in response to the financial and Eurozone crises. At the December 2012 meeting of EU Finance Ministers it was agreed to establish a single supervisory mechanism within the Eurozone. The European Central Bank (ECB) will have responsibility for the supervision of the most significant Eurozone credit institutions, financial holding companies or mixed financial holding companies. The ECB may extend its supervision to institutions of significant relevance that have established subsidiaries in more than one participating member state and with significant cross-border assets or liabilities. Following the passage of the regulation granting the ECB responsibility for banking supervision in the Eurozone in September 2013, it is expected that the single supervisory mechanism will become operational in autumn 2014.

Notwithstanding the new responsibilities of the ECB, the European Banking Authority (EBA) which came into being on 1 January 2011, along with the other European Supervisory Authorities, remains charged with the development of a single rulebook for the EU as a whole and with enhancing co-operation between national supervisory authorities. The European Securities Markets Authority (ESMA) has a similar role in relation to the capital markets and to banks and other firms doing investment and capital markets business. The progressive reduction of national discretion on the part of national regulatory authorities within the EU may lead to the elimination of prudential arrangements that have been agreed with those authorities. This may serve to increase or decrease the amount of capital and other resources that the Group is required to hold. The overall effect is not clear and may only become evident over a number of years. The EBA and ESMA each have the power to mediate between and override national authorities under certain circumstances. Responsibility for day to day supervision remains with national authorities and for banks, like the Group, that are incorporated in countries that will not participate in the single supervisory mechanism, is expected to remain so.

Basel 3 and (from 2016) the capital surcharge for systemic institutions have been implemented in the EU by the CRD. The CRD entered into force on 1 January 2014. Much of the implementation is expected to be done through binding technical standards being developed by the EBA, that are intended to ensure a harmonised application of rules through the EU which are still largely in the process of being developed and adopted. An assessment of the likely impact of the capital, leverage and liquidity requirements of CRD and CRR as interpreted by the PRA can be found in the analysis of funding risk in relation to capital and to liquidity (pages 199 to 207 in relation to capital and leverage and pages 208 to 224 in relation to liquidity).

senior unsecured creditors subject to any bail-in in the event of a resolution of a failing bank. It also stipulates that firms would need a minimum percentage of liabilities in a form that allows them to be subject to bail-in. The proposal also requires the development of recovery and resolution plans at group and firm-level. The proposal sets out a harmonised set of resolution tools across the EU, including the power to impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts. There are also significant funding implications for financial institutions: the proposal envisages the establishment of pre-funded resolution funds of 1% of covered deposits to be built up over 10 years, although the proposal also envisages that national deposit guarantee schemes may be able to fulfil this function. The proposal is to be implemented by 1 January 2015, with the exception of the bail-in powers which must be implemented by 1 January 2016.

A proposal to amend the Directive on Deposit Guarantee Schemes is also being considered. The draft directive envisages that national schemes should be pre-funded, with a fund to be raised over a number of years. This would be a significant change for UK banks where levies are currently raised as needed after failure. An agreement between Council and Parliament remains to be finalised, but would envisage a fund of 0.8% of covered deposits to be built up over 10 years.

In relation to both resolution funds and the funds required by the Directive on Deposit Guarantee Schemes, there may be scope for the UK to use the Bank Levy to meet pre-funding obligations, although whether this will happen and the manner in which this might operate remains unclear.

In October 2012, a group of experts set up by the European Commission to consider possible reform of the structure of the EU banking sector presented its report. Among other things, the group recommended the mandatory separation of proprietary trading and other high-risk trading activities from other banking activities. The European Commission issued proposals to implement these recommendations in January 2014. These proposals would apply to G-SIFIs and envisage, among other things: (i) a ban on proprietary trading in financial instruments and commodities; (ii) giving supervisors the power and, in certain instances, the obligation to require the transfer of other trading activities deemed to be 'high risk' to separate legal trading entities within the group; and (iii) rules on the economic, legal, governance, and operational links between the separated trading entity and the rest of the banking group. Contemporaneously, the European Commission also adopted proposals to enhance the transparency of shadow banking, especially in relation to securities financing transactions. These proposals have yet to be considered by the European Parliament and by the Council. Their impact, if they are adopted, remains to be determined.

The European Market Infrastructure Regulation (EMIR) introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. These requirements come into force progressively through 2013 and 2014. When it enters fully into force, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: report every derivative contract that they enter to a trade repository; implement new risk management standards, including

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A significant addition to the EU legislative framework for financial institutions is a directive establishing a framework for the recovery and resolution of credit institutions and investment firms. This Directive is intended to implement many of the requirements of the FSB's 'Key Attributes of Effective Resolution Regimes for Financial Institutions', and political agreement on it was reached by the European Parliament and Council in December 2013, although it has yet to complete the legislative process. The directive would give resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in may affect the rights of

operational processes and margining, for all bilateral over-the-counter derivatives trades that are not cleared by a central counterparty; and clear, through a central counterparty, over-the-counter derivatives that are subject to a mandatory clearing obligation. EMIR has potential operational and financial impacts on the Group, including collateral requirements. Lower capital requirements for cleared trades are only available if the central counterparty is recognised as a 'qualifying central counterparty' which has been authorised or recognised under EMIR (in accordance with binding technical standards).

Proposals to amend the Markets in Financial Instruments Directive (known as MiFID II) were agreed in January 2014. These amendments

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Supervision and regulation continued

take the form of a directive and a regulation and will affect many of the investment markets in which the Group operates and the instruments in which it trades, and how it transacts with market counterparties and other customers. Changes to the MiFID regime include the introduction of a new type of trading venue (the organised trading facility), to capture non-equity trading that falls outside the current regime. Investor protections have been strengthened, and new curbs imposed on high frequency and commodity trading. Pre- and post-trade transparency has been increased, and a new regime for third country firms introduced. The changes also include new requirements for non-discriminatory access to trading venues, central counterparties, and benchmarks, and harmonised supervisory powers and sanctions across the EU. Implementation is not expected until late 2016 and many of the provisions of MiFID II and its accompanying regulation will be implemented by means of technical standards to be drafted by ESMA. Some of the impacts on the Group will not be clear until these technical standards have been adopted.

United Kingdom

Developments in the UK have been dominated by the Financial Services Banking Reform Act 2013. The content and the impact of this legislation are discussed above. Secondary legislation and rule-making to implement both the Act and the recommendations of the Parliamentary Commission on Banking Standards will be anticipated through 2014.

As noted above, the FPC has a significant influence on prudential requirements. During 2013, the FPC continued to recommend that the PRA should seek to ensure that UK banks hold greater levels of capital. In particular, the FPC recommended that the PRA should apply higher capital requirements to any major bank or building society with concentrated exposure to vulnerable assets, where there were valuation uncertainties or where banks were highly leveraged relating to trading activities. This resulted in the PRA on 20 June 2013 requiring two firms, including Barclays, to submit plans to increase the Core Equity Tier 1 leverage ratio to 3% by end June 2014 after adjustment for prospective credit and conduct losses. Also responding to an FPC recommendation, the Bank of England and PRA are also developing an approach to annual stress testing of the UK banking system and the individual institutions within it. The first such exercise is planned for 2014.

Both the PRA and the FCA have continued to develop and apply a more assertive approach to supervision and the application of existing standards. This may include application of standards that either anticipate or go beyond requirements established by global or EU standards, whether in relation to capital, leverage and liquidity, resolvability and resolution of matters of conduct. In December 2013, the PRA published its requirements to implement the new European capital regime, clarifying key policy issues that affect the minimum level of Common Equity Tier 1 (CET1) capital which banks need to maintain. The PRA will require banks to meet a 4% Pillar 1 CET1 requirement in 2014, rising to 4.5% from 1 January 2015. Similarly, during the same period the required Pillar 1 Tier 1 capital ratio will be 5.5%, rising to 6% from 1 January 2015 onwards. The PRA will require UK banks

customers and the operation of markets. This may impact both the incidence of conduct costs and increase the cost of remediation. The Retail Distribution Review entered into force on 1 January 2013 and the Mortgage Market Review will apply from 26 April 2014. These conduct initiatives will affect the economics of investment advice and home finance provision respectively.

United States

The DFA became law in July 2010. Although many of the DFA rules have been adopted and implemented, a number of rules have not yet been adopted, or have been adopted but not fully implemented. In addition, the rules that have been adopted and implemented have, for the most part, only recently become effective and their impact, in many cases, cannot yet be fully evaluated. Therefore, the full scale of the DFA's impact on the Group continues to remain unclear. In addition, market practices and structures may change in response to the requirements of the DFA in ways that are difficult to predict but that could impact Barclays business. Nonetheless, certain provisions of the DFA are particularly likely to have a significant effect on the Group, including:

- **Structural Reform:** On 18 February 2014, the FRB issued final rules implementing various enhanced prudential standards under Section 165 of the DFA applicable to certain foreign banking organisations and their US operations (i.e. branches, agencies, and subsidiaries), including Barclays.

The final rules' specific requirements depend on the amount of assets of the foreign banking organisation both inside and outside the United States. Because its total US and non-US assets exceed \$50bn, Barclays would be subject to the most stringent requirements of the final rules, including the requirement to create a US intermediate holding company (IHC) structure to hold its US banking and non-banking subsidiaries, including Barclays Capital Inc. (the Group's US broker-dealer subsidiary). The IHC would be subject to supervision and regulation, including as to regulatory capital and stress testing as described below, by the FRB as if it were a US bank holding company of comparable size. While the operations and assets of Barclays Bank PLC's US branches would not be required to be held in the IHC, the branches would be subject to certain separate requirements.

Under the final rules, the consolidated IHC would be subject to a number of additional supervisory and prudential requirements, such as: (i) subject to certain limited exceptions, FRB regulatory capital requirements and leverage limits that are the same as those applicable to US banking organisations of comparable size; (ii) mandatory company-run and supervisory stress testing of capital levels and submission of a capital plan to the FRB; (iii) supervisory approval of and limitations on capital distributions by the IHC to Barclays Bank PLC; (iv) additional substantive liquidity requirements, including requirements to conduct monthly internal liquidity stress tests for the IHC (and also for Barclays Bank PLC's US branch network, separately), and to maintain in the US a 30-day buffer of highly liquid assets for the IHC (the branch liquidity buffer is set at 14 days); (v) other liquidity risk management requirements,

to bring CET1 in line with the end-point definition from 1 January 2014 rather than benefiting from transitional arrangements. Additionally, the PRA will expect eight major UK banks and building societies including Barclays, to meet a 7% CET1 capital ratio and a 3% Tier 1 leverage ratio – after taking into account adjustments to risk-weighted assets and CET1 capital deemed necessary by the PRA – from 1 January 2014, except where – as in the case for Barclays – the PRA has agreed a plan with the firm to meet the standards over a longer time frame. Barclays has agreed with the PRA that it will meet this requirement by end-June 2014 at the latest. Details of Barclays leverage calculation are set out on pages 205 and 206.

The FCA has retained an approach to enforcement based on credible deterrence that has continued to see significant growth in the size of regulatory fines. The FCA has focused strongly on conduct risk and on customer outcomes and will continue to do so. This has included a focus on the design and operation of products, the behaviour of

including compliance with liquidity risk management standards established by the FRB and maintenance of an independent review function to review and evaluate regularly the adequacy and effectiveness of the liquidity risk management practices of Barclays' combined US operations; (vi) overall risk management requirements, including a US risk committee and a US chief risk officer; and (vii) a potential 15:1 debt-to-equity limit applicable to the IHC in the event of the occurrence of a designation by the U.S. Financial Stability Oversight Council under Section 165(j) of the DFA that the foreign banking organisation poses a grave threat to the systemic stability of the United States and the debt-to-equity limit is necessary to mitigate such risk.

The effective date of the final rule is 1 June 2014, although compliance with most of its requirements will be phased-in between 2015 and 2018. More particularly, (i) Barclays will not be required to form its IHC until 1 July 2016, (ii) the IHC will not be subject to the US

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generally applicable minimum leverage capital requirement (which is different than the Basel III international leverage ratio, including to the extent that the generally applicable US leverage ratio does not include off-balance sheet exposures) until 1 January 2018, and (iii) the IHC will first be required to make the aforementioned capital plan submission and be subject to the company-run and supervisory capital stress testing requirements of the final rules in January 2018.

In addition, Barclays' US IHC will also be separately subject to the supplementary US version of the Basel III international minimum leverage capital requirement starting in 2018 to the extent the IHC has over \$250bn of total consolidated assets or \$10bn in total non-US exposures. In light of the recent release of the final rules, Barclays continues to evaluate their implications for Barclays. Nevertheless, the Group currently believes that, in the aggregate, the final rules (and, in particular, the leverage requirements in the final rules that will ultimately become applicable to the IHC) are likely to increase the operational costs and capital requirements and/or require changes to the business mix of Barclays' US operations, which ultimately may have an adverse effect on the Group's overall result of operations.

Finally, the final rules did not implement the single counterparty credit exposure limits or the early remediation framework that were originally proposed in 2012. The FRB expects to implement such provisions at a later date.

- **Other enhanced prudential requirements:** In addition to the requirements that would be implemented under the above final rules described under 'Structural Reform', the DFA and other US laws and regulations also impose higher capital, liquidity and leverage requirements on US banks and bank holding companies generally. As discussed above, these requirements will also be generally applicable to the IHC and Barclays US operations held by it.
- **Restrictions on proprietary trading and fund-related activities:** In December 2013, the relevant US regulatory agencies, including the FRB, the FDIC, the SEC and the CFTC, finalised the rules implementing the requirements of Section 619 of the DFA – the so-called 'Volcker Rule'. The Volcker Rule, once fully effective, will prohibit banking entities, including Barclays PLC, Barclays Bank PLC and their various subsidiaries and affiliates from undertaking certain 'proprietary trading' (but will allow activities such as underwriting, market making and risk-mitigation hedging) and will limit the sponsorship of, and investment in, private equity funds (including non-conforming real estate and credit funds) and hedge funds, in each case broadly defined, by such entities. These restrictions are subject to certain exceptions and exemptions, including those listed above as well as exemptions applicable to transactions and investments occurring solely outside of the United States. The rules will require Barclays to develop an extensive compliance and monitoring programme (both inside and outside of the United States), subject to various executive officer attestation requirements, addressing proprietary trading and covered fund activities, and it is therefore expected that compliance costs will increase. The final rules are highly complex and differ in certain significant respects from the rules as proposed in October 2011. As such, their full impact will not be known with certainty until

in the over-the counter markets be traded on an exchange or swap execution facility and centrally cleared through a regulated clearing house. In addition, many participants in these markets are required to register with the CFTC as 'swap dealers' or 'major swap participants' and/or with the US SEC as 'securities swap dealers' or 'major securities swap dealers' and be subject to CFTC and SEC regulation and oversight. It is anticipated that additional participants in the derivatives markets will be required to register in the future. Barclays Bank PLC has registered as a swap dealer. Entities required to register are subject to business conduct, recordkeeping and reporting requirements and will be subject to capital and margin requirements. The DFA also requires most standardised derivatives to be traded on a regulated platform and cleared through a regulated clearing house. In addition, the CFTC, pursuant to the DFA, has proposed rules on position limits on derivatives on physical commodities. Once adopted and implemented, these rules will limit the size of positions that can be held by an entity, or a group of entities under common ownership or control, in futures and over-the-counter derivatives, subject to certain exemptions. These rules could restrict trading activity, reducing trading opportunities and market liquidity and potentially increasing the cost of hedging transactions and the volatility of the relevant markets. It is also possible that registration, execution, clearing and compliance requirements as well as other additional regulations (certain of which still are not final), and the related expenses and requirements, will increase the cost of and restrict participation in the derivative markets, thereby increasing the costs of engaging in hedging or other transactions and reducing liquidity and the use of the derivative markets. Barclays Bank PLC and its subsidiaries and affiliates may be exposed to these effects whether or not these subsidiaries are required to register in the capacities described. The new regulation of the derivative markets could adversely affect the business of Barclays Bank PLC and its affiliates in these markets and could make it more difficult and expensive to conduct hedging and trading activities.

- **Risk retention requirements for securitisations:** The US federal banking agencies are required by the DFA to develop rules whereby, subject to certain exceptions, any sponsor of an asset-backed security (ABS) transaction must retain, generally, not less than 5% of the credit risk of any asset that the sponsor, through the issuance of ABS, transfers, sells or conveys to a third party. This may impact the participation by the Group's US operations in such transactions.
- **The Bureau of Consumer Financial Protection (CFPB):** The CFPB is empowered to regulate the credit card industry, including the terms of credit card agreements with consumers, disclosures and fees. Actions by the CFPB in this area are likely to impact the Group's US credit card business. The CFPB became operational in July 2011, and has developed a model credit card disclosure form and is accepting consumer credit card complaints. More broadly, the CFPB has the authority to examine and take enforcement action against any US bank with over \$10bn in total assets, such as Barclays Bank Delaware, with respect to its compliance with Federal laws regulating the provision of consumer financial services and with respect to 'unfair, deceptive or abusive acts and practices.' Since becoming operational, the CFPB has initiated several high-profile public actions against financial companies, including major credit card issuers. Settlements of those actions

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market practices and structures develop under them. Subject entities are generally required to be in compliance by July 2015 (with certain provisions subject to possible extensions).

have included monetary penalties, customer remediation requirements and commitments to modify business practices.

- **Resolution plans:** The DFA requires bank holding companies with total consolidated assets of \$50bn or more to submit to the FRB and the FDIC, and regularly update, a plan for 'rapid and orderly' resolution to be used if the company experiences material financial distress or failure. Non-US banking organisations that are treated as bank holding companies under US law, such as Barclays, are required to submit such plans with respect to their US operations if they have more than \$50bn in US assets. As Barclays' US assets exceed \$250bn, it submitted its most recent annual resolution plan as required in October 2013.
- **Regulation of derivatives markets:** Among the changes mandated by the DFA are that many types of derivatives now (or previously) traded

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Key performance indicators

Transform Financial Commitments and Leverage Plan



On 12 February 2013, Barclays announced six Transform Financial Commitments based on the results of its strategic review. On 30 July 2013, Barclays also announced its Leverage Plan in order to achieve the PRA 3% leverage ratio target by June 2014. These metrics, alongside the financial KPIs used in the prior year (see pages 241 and 242) were used by management to assess performance during 2013.

Transform Financial Commitments

Performance metric	Definition	Why it is important to the business and performance update
Return on average shareholders' equity (RoE) Adjusted 2013 – 4.5% 2012 – 9.0% 2011 – 6.7% 2016 Target – > Cost of Equity	RoE is calculated as profit for the year attributable to ordinary equity holders of the parent divided by average shareholders' equity for the year excluding non-controlling and other equity interests. Shareholders' equity is made up of share capital, retained earnings and other reserves. Adjusted RoE excludes post tax adjusting items for movements in own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment. Average shareholders' equity for adjusted RoE excludes the impact of own credit on retained earnings.	This measure indicates the return generated by the management of the business based on the shareholders' equity. Achieving a target RoE demonstrates the organisation's ability to execute its strategy and align management's interests with shareholders'. RoE lies at the heart of our capital allocation and performance management process. Adjusted RoE decreased to 4.5% (2012: 9.0%) principally reflecting the decrease in profit before tax, £440m write down of deferred tax assets relating to Spain and the rights issue equity raised of £5.8bn. Transform commitment: deliver a return on equity in excess of cost of equity in 2016.
Operating expenses Adjusted 2013 – £19,893m 2012 – £18,562m 2011 – £19,289m 2015 Target – £16,800m	Defined as total operating expenses. Adjusted operating expenses exclude provisions for PPI and interest rate hedging products redress, and goodwill impairment.	Barclays views operating expenses as a key strategic battleground for banks in the next decade. Those who actively manage costs and control them effectively will gain a competitive advantage. Adjusted operating expenses increased 7% to £19.9bn reflecting £1.2bn of costs to achieve Transform, provisions for litigation and regulatory penalties in Q4 2013 in the Investment Bank and an increase in UK bank levy to £504m (2012: £345m). Transform commitment: deliver a cost reduction of £1.7bn in order to reduce operating expenses excluding costs to achieve Transform to £16.8bn in 2015.
Cost: income ratio Adjusted 2013 – 71% 2012 – 63% 2011 – 68% 2015 Target – mid-50s	The cost: income ratio is defined as operating expenses compared to total income net of insurance claims. The adjusted cost: income ratio excludes movements on own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, provisions for PPI and interest rate hedging products redress, and goodwill impairment	This is a measure management uses to assess the productivity of the business operations. Restructuring the cost base is a key execution priority for management and includes a review of all categories of discretionary spending and an analysis of how the business can be run to ensure that costs increase at a slower rate than income. The adjusted cost to income ratio

increased to 71% (2012: 63%) primarily due to reductions in income.

Transform commitment: reduce cost to income ratio excluding cost to achieve transform of mid-50s by 2015.

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Performance metric	Definition	Why it is important to the business and performance update
CRD IV Risk Weighted Assets (RWAs) 2013 – £436bn 2012 – £468bn 2015 Target – £440bn	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.	RWAs remain the primary measure to determine the effective allocation of capital across the Group. CRD IV RWAs reduced £32bn to £436bn. The reduction during the year was primarily driven by reductions in Exit Quadrant RWAs of £39bn and reductions in trading book exposures, partially offset by methodology changes. This reduction was primarily in the Investment Bank, where Exit Quadrant RWAs reduced £37bn to £42bn. CRD III RWAs reduced £32bn to £355bn during the year. Transform commitment: CRD IV RWAs of £440bn in 2015.
CRD IV fully loaded Common Equity Tier 1 (CET1) ratio 2013 – 9.3% 2015 Target – >10.5%	Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets as defined by the PRA. In the context of CRD IV, the CRD IV fully loaded CET1 ratio uses a measure of capital that is predominantly common equity as defined by the Capital Requirements Regulation.	The Group's capital management objective is to maximise shareholders' value by prudently optimising the level and mix of its capital resources whilst maintaining sufficient capital resources to: ensure the Group and all of its subsidiaries are well capitalised relative to their minimum regulatory capital requirements; support the Group's risk appetite and economic capital requirements; and support the Group's credit rating. As at 31 December 2013, the Group's CRD IV fully loaded CET1 ratio was 9.3%. Transform commitment: 10.5% CRD IV CET1 ratio on a fully loaded basis in 2015.
Dividend payout ratio Dividend per share Dividend payout ratio 2013 – 6.5p 2013 – 38.9% 2012 – 6.5p 2012 – 18.3% 2011 – 6.0p 2014 Target – 40-50%	It is the Group's policy to declare and pay dividends on a quarterly basis. In a normal year there will be three equal payments in June, September and December and a final variable payment in March. Dividend payout ratio is the percentage of earnings paid to shareholders in dividend and is calculated as a proportion of adjusted earnings per share as determined by the Board.	The ability to pay dividends demonstrates the financial strength of the Group. Dividends remained constant at 6.5p during 2013. Transform commitment: 40%-50% dividend payout ratio over time. The Group expects to be at 40% from 2014 to allow focus on capital accretion. The Group would not expect it to rise further until the 10.5% Core Equity Tier 1 milestone has been reached.

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Leverage Plan

Performance metric	Definition	Why it is important to the business and performance update
Estimated PRA leverage ratio 2013 – 3.0% 2015 Target – 3.5% Target beyond 2015 – 3.5-4%	In June 2013 the PRA announced the results of its review of the capital adequacy of major UK banks and building societies. As part of its review, the PRA introduced a 3% leverage ratio target – a non risk-based ratio calculated as fully loaded CET1 capital after PRA adjustments together with CRD IV qualifying Tier 1 and divided by a PRA adjusted CRD IV leverage exposure.	In order to achieve the PRA 3% leverage ratio target by June 2014, Barclays announced a series of actions, including an underwritten Rights Issue, measures to reduce Barclays' CRD IV leverage exposure, and the continued execution of Barclays' capital plan with the issuance of CRD IV qualifying AT1 securities. The estimated PRA leverage ratio increased to just under 3.0% (30 June 2013: 2.2%), reflecting a reduction in the PRA leverage exposure of £196bn and an increase in eligible PRA adjusted Tier 1 Capital to £40.5bn (30 June 2013: £34.2bn). The increase included £2.1bn of AT1 securities and a £1.9bn reduction in PRA adjustments to CET1 to £2.2bn largely driven by an elimination of the additional PRA add-on for PVA. The estimated CRD IV fully loaded leverage ratio increased to 3.1% (30 June 2013: 2.5%). Leverage plan target: PRA leverage ratio of at least 3.5% by the end of 2015 and a range of 3.5% to 4% beyond 2015.

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Other Financial KPIs

The other financial KPIs outlined below were used alongside the six Transform Financial Commitments. Together they set out the way in which the performance of the Group has been measured during 2013.

Other Financial KPIs

Performance metric	Definition	Why it is important to the business and performance update
Total income	Defined as total income net of insurance claims.	Total income is a key indicator of financial performance to many of Barclays' stakeholders and income growth is a key execution priority for Barclays' management.
Adjusted	Statutory	
2013 – £28,155m	2013 – £27,935m	
2012 – £29,361m	2012 – £25,009m	Adjusted total income decreased 4% to £28,155m due to challenging economic conditions and the continuing low interest rate environment.
2011 – £ 28,513m	2011 – £ 32,292m	
Profit before tax	Profit before tax and adjusted profit before tax are the two primary profitability measures used by management to assess performance. Profit before tax is stated in accordance with International Financial Reporting Standards and represents total income less impairment charges and operating expenses	Profit before tax is a key indicator of financial performance to many of our stakeholders.
Adjusted	Statutory	
2013 – £5,167m	2013 – £2,868m	Adjusted profit before tax is presented to provide a consistent basis for comparing business performance between periods. Adjusted profit before tax decreased by 32% to £5,167m due to costs to achieve Transform and a 4% reduction in income.
2012 – £7,599m	2012 – £797m	Profit before tax in the Investment Bank decreased 37% to £2,523m.
2011 – £ 5,482m	2011 – £ 5,770m	
Loan loss rate	The loan loss rate is quoted in basis points and represents total annualised loan impairment divided by gross loans and advances to customers and banks held at amortised cost at the balance sheet date.	The granting of credit is one of Barclays major sources of income and its most significant risk. The loan loss rate is an indicator of the cost of granting credit. The loan loss rate decreased to 64bps (2012: 70bps) reflecting an 8% reduction in impairment charge on loans and advances principally due to lower impairments in the wholesale businesses.
2013 – 64 bps		
2012 – 70 bps		
2011 – 77 bps		
Return on average tangible shareholders' equity (RoTE)	RoTE is calculated as profit for the year attributable to equity holders of the parent divided by average shareholders' equity for the year, excluding non-controlling interests, goodwill and intangible assets. Adjusted RoTE excludes post tax adjusting items for movements in own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment. Average tangible shareholders' equity for adjusted RoTE excludes the impact of own credit on retained earnings.	This measure indicates the return generated by the management of the business based on the tangible shareholders' equity.
Adjusted	Statutory	
2013 – 5.3%	2013 – 1.2%	Adjusted return on average tangible shareholders' equity decreased to 5.3% (2012: 10.6%), principally reflecting the decrease in profit before tax, £440m write down of deferred tax assets relating to Spain and the rights issue equity raised of £5.8bn.
2012 – 10.6%	2012 – (1.4%)	
2011 – 8.1%	2011 – 7.1%	

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Key performance indicators continued

Performance metric	Definition	Why it is important to the business and performance update
Return on average risk weighted assets (RoRWA) Adjusted 2013 – 0.8% 2012 – 1.4% 2011 – 1.1%	RoRWA is calculated as profit after tax for the year divided by average CRD III RWAs for the year. Adjusted RoRWA excludes post tax adjusting items for movements in own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment.	This measure indicates the return generated by the management of the business based on RWAs. Adjusted return on average risk weighted assets decreased to 0.8% (2012: 1.4%), principally reflecting the decrease in profit before tax and £440m write down of deferred tax assets relating to Spain, despite the reduction in RWAs.
Core Tier 1 ratio 2013 – 13.2% 2012 – 10.8% 2011 – 11.0%	Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets as defined by the PRA. Core Tier 1 Capital is broadly tangible shareholders' funds less certain capital deductions (see page 201 for a reconciliation).	The Group's capital management activities seek to maximise shareholders' value by prudently optimising the level and mix of its capital resources. The Group's capital management objectives are to maintain sufficient capital resources to: ensure the financial holding company is well capitalised relative to the minimum regulatory capital requirements set by the PRA; ensure locally regulated subsidiaries can meet their minimum regulatory capital requirements; support the Group's risk appetite and economic capital requirements; and support the Group's credit rating. During 2013, the Group's Core Tier 1 ratio strengthened to 13.2% (2012: 10.8%) primarily due to the rights issue and a decrease in RWAs offset by new regulatory deductions primarily related to foreseeable dividends.

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Barclays Balanced Scorecard

The Balanced Scorecard defines what Barclays need to achieve over the next five years to be well on the way to becoming the 'Go-To' bank. The Balanced Scorecard sets out 8 specific commitments against the 5Cs (Customer & Client, Colleague, Citizenship, Conduct, and Company), which will form part of the KPIs going forward. See the Strategic Report for further details and an overview of the Balanced Scorecard.



For further information on Balance Scorecard Methodology and Data Sources please visit barclays.com/balancedscorecard and see the 'Metrics and targets' page.

Customer & Client KPIs

Performance metric	Definition	Why it is important to the business and management
Retail and Business Banking, Barclaycard and Wealth and Investment Management: Weighted average ranking of Relationship Net Promoter Score® vs. peer sets 2013 – 4th 2018 Target – 1st	Relationship Net Promoter Score® versus peer sets is an income weighted ranking using rankings for Barclays UK Retail Banking, Barclaycard UK Credit Cards, Barclaycard US Credit Cards and ABSA Retail Banking. Wealth and Investment Management will be added in future reporting.	Relationship Net Promoter Score® is a measure of customer advocacy, and demonstrates progress in becoming 'Go-To' for customers and clients across Retail and Business Banking, Barclaycard and Wealth and Investment Management.
Corporate and Investment Bank (CIB) Client Franchise Rank: Weighted average ranking of wallet share or customer satisfaction with priority clients 2013 – 4th 2018 Target – Top 3	CIB Client Franchise Metric is an income weighted ranking comprised of metrics representing the wallet share with Barclays' priority clients across four major product lines in the Investment Bank and client satisfaction of Corporate Banking priority clients.	CIB Client Franchise Metric demonstrates progress in becoming 'Go-To' across Barclays' major businesses in Corporate Banking and the Investment Bank.

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Performance metric	Definition	Why it is important to the business and management
Sustained engagement of colleagues score 2013 – 74% 2018 Target – 87-91%	The score is based on a survey of colleagues across the Barclays Group.	Demonstrates progress on colleague engagement. Strong levels of sustainable colleague engagement will be key in driving successful delivery of Barclays' strategy for all stakeholders.
Percentage of women in senior leadership 2013 – 21% 2018 Target – 26%	Percentage of women in senior leadership is defined as the number of female Directors and Managing Directors as a percentage of the entire Director and Managing Director population.	Demonstrates progress on the delivery of an improved gender mix across Barclays' senior leadership, a key part of Barclays' diversity strategy. Diversity and inclusion is important to Barclays as only through access to the most diverse pool of talent will Barclays recruit and retain the most talented individuals to serve all stakeholders.

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Key performance indicators continued

Citizenship KPIs

Performance metric	Definition	Why it is important to the business and management
Citizenship Plan – number of initiatives on track or ahead 2013 – 10/11 2018 Target – Meet all Plan Targets (11/11)	The KPI tracks overall performance against 11 metrics based on the 2015 Citizenship Plan commitments. 1. Attestation to 'Barclays Way' Code of Conduct; 2. Reduction in Global Carbon Emissions; 3. Percentage of suppliers paid on time; 4. New and renewed lending to households; 5. New and renewed lending to SMEs; 6. Assist in raising financing for businesses and governments; 7. Number of SMEs supported with seminars, tools and training; 8. Number of apprenticeships at Barclays; 9. Monetary investment in the community; 10. 10-35 year olds supported in building skills; and 11. Citizenship Reputation (YouGov Survey).	The 2015 Citizenship Plan provides the framework and targets for Barclays' approach to positively impact the communities in which we operate. The KPI demonstrates how Barclays is making progress against 11 metrics based on the 2015 Citizenship Plan commitments across three areas: the way we do business, contributing to growth and supporting our communities.

Conduct KPIs

Performance metric	Definition	Why it is important to the business and management
Conduct Reputation (YouGov survey) 2013 – 5.2/10 2018 Target – 6.5/10	This measure is developed through a Conduct Reputation survey, conducted by YouGov, across opinion formers including MPs, business and political stakeholders, media, non-governmental organisations, charities, think tanks and other general opinion formers (drawn from academia, public sector, arts/leisure, professionals and religion).	Demonstrates progress in improving Barclays' Conduct Reputation through improvements in reputation across areas of trust, openness and transparency, delivering value for money for customers and clients, having high quality products and services and how Barclays treats staff at all levels of the business.

Company KPIs

Performance metric	Definition	Why it is important to the business and management
Return on Equity (Adjusted) Adjusted 2013 – 4.5% 2018 Target – > Cost of Equity	RoE is calculated as profit for the year attributable to ordinary equity holders of the parent divided by average shareholders' equity for the year excluding non-controlling and other equity interests. Shareholders' equity is made up of share capital, retained earnings and other reserves. Adjusted RoE excludes post tax adjusting items for movements in own credit, gains on debt buy-backs, provisions for PPI and interest rate hedging products redress, and goodwill impairment. Average shareholders' equity for adjusted RoE excludes the impact of own credit on retained earnings.	This measure demonstrates progress in achieving a return on equity in excess of cost of equity. Achieving a return on equity in excess of cost of equity in a sustainable way demonstrates the organisation's ability to generate long-term returns for our shareholders.
CRD IV fully loaded CET1 ratio 2013 – 9.3% 2018 Target – > 10.5%	Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets as defined by the UK PRA. In the context of CRD IV, the CRD IV fully loaded CET1 ratio uses a measure of capital that is predominantly common equity as defined by the Capital Requirements Regulation.	The CRD IV fully loaded CET1 ratio is a key measure of Barclays' capital strength in the new regulatory framework. This measure will demonstrate Barclays' progress in achieving a CRD IV fully loaded CET1 ratio exceeding 10.5%.

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Consolidated summary income statement

For the year ended 31 December	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Continuing operations					
Net interest income	11,600	11,654	12,201	12,523	11,918
Non-interest income net of claims and benefits on insurance contracts	16,555	17,934	16,253	18,526	17,776
Own credit (charge)/gain	(220)	(4,579)	2,708	391	(1,820)
Gains on debt buy-backs	—	—	1,130	—	1,249
Total income net of insurance claims	27,935	25,009	32,292	31,440	29,123
Credit impairment charges and other provisions	(3,071)	(3,340)	(3,802)	(5,672)	(8,071)
Impairment of BlackRock investment	—	—	(1,800)	—	—
Provision for PPI redress	(1,350)	(1,600)	(1,000)	—	—
Provision for interest rate hedging products redress	(650)	(850)	—	—	—
Goodwill impairment	(79)	—	(597)	(243)	(1)
Operating expenses	(19,893)	(18,562)	(19,289)	(19,794)	(16,603)
Other	(24)	140	(34)	268	248
Profit before tax	2,868	797	5,770	5,999	4,696
Taxation	(1,571)	(616)	(1,902)	(1,500)	(1,103)
Profit after tax from continuing operations	1,297	181	3,868	4,499	3,593
Profit for the year from discontinued operations, including gain on disposal	—	—	—	—	6,777
Profit after tax	1,297	181	3,868	4,499	10,370
Profit/(loss) attributable to equity holders of the parent	540	(624)	2,924	3,514	9,475
Profit attributable to non-controlling interests	757	805	944	985	895
	1,297	181	3,868	4,499	10,370
Selected financial statistics					
Basic earnings/(loss) per share from continuing operations	3.8p	(4.8p)	22.9p	28.1p	23.3p
Basic earnings/(loss) per share	3.8p	(4.8p)	22.9p	28.1p	81.5p
Diluted earnings/(loss) per share	3.7p	(4.8p)	21.9p	26.5p	77.4p
Dividends per ordinary share	6.5p	6.5p	6.0p	5.5p	2.5p
Dividend payout ratio	171%	(135.4%)	26.2%	19.6%	3.1%
Return on average shareholders' equity ^a	1.0%	(1.2%)	5.9%	7.4%	25.6%

The financial information above is extracted from the published accounts. This information should be read together with the information included in the accompanying consolidated financial statements. All comparatives have been restated to reflect the IAS 19 revised standard, however, only the 2012 comparative has been restated to reflect the IFRS 10 standard.

Note

^a Return on average shareholders' equity represents profits attributable to the equity holders of the parent as a percentage of average shareholders' equity.

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Income statement commentary
2013

Profit before tax increased to £2,868m (2012: £797m). Excluding the adjusting items for movements in own credit, gain on disposal of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment, adjusted profit before tax decreased 32% to £5,167m.

Income increased 12% to £27,935m. Adjusted income excluding own credit and gain on disposal of investment in BlackRock, Inc. decreased 4% to £28,155m. The decrease reflected reductions in the Investment Bank, the Head Office and Africa RBB, partially offset by growth in Barclaycard and UK RBB.

Total net interest income was broadly stable at £11,600m, with lower net interest income in Head Office, Africa RBB and the Investment Bank offset by increases in Barclaycard, UK RBB and Corporate Banking. Customer net interest income for RBB, Barclaycard, Corporate Banking and Wealth and Investment Management increased to £10,365m (2012: £9,839m) driven by growth in customer assets, partially offset by contributions from Group structural hedging activities.

Total income in the Investment Bank decreased 9% to £10,733m driven by a decrease in FICC income of £1,141m, partially offset by increases in Equities and Prime Services of £489m, and Investment Banking of £63m. Exit Quadrant income also decreased £309m due to accelerated disposals and a £111m reversal of income relating to a litigation matter in Q413.

Credit impairment charges improved 8% to £3,071m, with a loan loss rate of 64bps (2012: 70bps). This reflected lower impairments in the wholesale businesses, mainly Corporate Banking in Europe and UK. In the RBB and Barclaycard businesses, Africa RBB arrears rates improved, particularly for South Africa home loans, however, impairment was higher in UK RBB and Barclaycard partly due to the non-recurrence of provision releases in 2012, and the Edcon acquisition in Barclaycard. Higher impairment in Europe reflected exposure to the renewable energy sector in Spain and weaker performance in European mortgages.

As a result, net operating income for the Group after impairment charges increased 15% to £24,864m. Net adjusted operating income excluding movements on own credit and gain on disposal of investment in BlackRock, Inc. decreased 4% to £25,084m.

Operating expenses increased 5% to £21,972m in 2013. Adjusted operating expenses excluding £1,350m (2012: £1,600m) provision for PPI redress, £650m (2012: £850m) provision for interest rate hedging products redress and £79m (2012: £nil) of goodwill impairment, were up 7% to £19,893m, reflecting £1,209m (2012: £nil) of costs to achieve Transform, £220m provisions for litigation and regulatory penalties in Q413 in the Investment Bank, mainly relating to the US residential mortgage-related business and UK bank levy of £504m (2012: £345m).

The cost: income ratio decreased to 79% (2012: 84%). The adjusted cost: income ratio excluding movements on

2012

Barclays delivered profit before tax of £797m in 2012, a decrease from £5,770 in 2011. Excluding the adjusting items for movements in own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc. provision for PPI and interest rate hedging products redress, and goodwill impairment, adjusted profit before tax increased 39% to £7,599m.

Income decreased 23% to £25,009m. Adjusted income excluding own credit, debt buy back gains and gains on disposal of investment in BlackRock, Inc. increased 3% to £29,361m. Income increased despite challenging economic conditions, the continuing low interest rate environment and non-recurrence of £1,061m gains from the disposal of hedging instruments in 2011.

Customer net interest income for RBB, Barclaycard, Corporate Banking and Wealth and Investment Management remained stable at £9,839m (2011: £12,033m) while the net interest margin for these businesses declined to 184bps (2011: 204bps), principally reflecting the non-recurrence of gains from the disposal of hedging instruments in 2011.

Total income in the Investment Bank increased 15% to £11,775m driven by increases in Fixed Income, Currency and Commodities (FICC), Equities and Prime Services, and Investment Banking, particularly in the Americas.

Credit impairment charges decreased 40% to £3,340m. Adjusted credit impairment charges excluding impairment of investment in BlackRock, Inc decreased 12%, principally reflecting improvements in Barclaycard, Corporate Banking and UK RBB. This was partially offset by higher charges in the Investment Bank, Africa RBB and Europe RBB. Impairment charges as a proportion of Group loans and advances as at 31 December 2012 improved to 70bps, compared to 77bps for 2011.

As a result, net operating income for the Group after impairment charges decreased 19% to £21,669m. Net adjusted operating income excluding movements on own credit, gains on debt buy-backs, loss/ gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provision for PPI and interest rate hedging products redress and goodwill impairment increased 5% to £26,021m.

Operating expenses increased 1% to £21,012m in 2013. Adjusted operating expenses excluding £1,600m (2011: £1,000m) provision for PPI redress and £850m (2011: £nil) provision for interest rate hedging products redress, were down 4% to £18,562m, including £125m (2011: £408m) of restructuring charges.

The cost: income ratio increased to 84% (2011: 65%). The adjusted cost: income ratio excluding movements on own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment improved to 63% (2011: 68%).

own credit, gains on disposal of investment in BlackRock, Inc., provisions for PPI and interest rate hedging products redress, and goodwill impairment increased to 71% (2012: 63%).

The tax charge for continuing operations for 2013 was £1,571m (2012: £616m) on profit before tax of £2,868m (2012: £797m), representing an effective tax rate of 54.8% (2012: 77.3%). The effective tax rate on adjusted profit before tax increased to 39.0% (2012: 28.4%), mainly due to a charge of £440m reflecting the write down of deferred tax assets in Spain. The adjusted effective tax rate excluding the write down was 30.5% (2012: 28.4%), which primarily reflected profits outside of the UK taxed at local statutory tax rates that are higher than the UK statutory tax rate of 23.25% (2012: 24.5%) and the impact of the increase in the non deductible UK bank levy to £504m (2012: £345m).

The tax charge for continuing operations for 2012 was £616m (2011: £1,902m) on profit before tax of £797m (2011: £5,770m), representing an effective tax rate of 77.3% (2011: 33.0%). The high effective tax rate in 2012 is a result of the combination of losses in the UK, primarily relating to the own credit charge of £4,579m (2011: gain of £2,708m) with tax relief at 24.5% (2011: 26.5%) and profits outside the UK taxed at higher rates.

Adjusted profit reconciliation		
	2013	2012
	£m	£m
Adjusted profit before tax^a	5,167	7,599
Own credit	(220)	(4,579)
Gain on disposal of investment in BlackRock, Inc.	–	227
Provision for PPI redress	(1,350)	(1,600)
Provision for interest rate hedging products redress	(650)	(850)
Goodwill impairment	(79)	–
Statutory profit before tax	2,868	797
Selected financial statistics on an adjusted basis		
Adjusted basic earnings per share	16.7p	35.5p
Adjusted dividend payout ratio	38.9%	18.3%

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Consolidated summary balance sheet

As at 31 December	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Assets					
Cash and balances at central banks	45,687	86,191	106,894	97,630	81,483
Items in the course of collection from other banks	1,282	1,473	1,812	1,384	1,593
Trading portfolio assets	133,069	146,352	152,183	168,867	151,344
Financial assets designated at fair value	38,968	46,629	36,949	41,485	42,568
Derivative financial instruments	324,335	469,156	538,964	420,319	416,815
Available for sale investments	91,756	75,109	68,491	65,110	56,483
Loans and advances to banks	37,853	40,462	47,446	37,799	41,135
Loans and advances to customers	430,411	423,906	431,934	427,942	420,224
Reverse repurchase agreements and other similar secured lending	186,779	176,522	153,665	205,772	143,431
Other assets	22,127	22,535	23,745	23,972	24,664
Total assets	1,312,267	1,488,335	1,562,083	1,490,280	1,379,740
Liabilities					
Deposits from banks	54,834	77,012	91,116	77,975	76,446
Items in the course of collection due to banks	1,359	1,587	969	1,321	1,466
Customer accounts	427,902	385,411	366,032	345,788	322,429
Repurchase agreements and other similar secured borrowings	196,748	217,178	207,292	225,534	198,781
Trading portfolio liabilities	53,464	44,794	45,887	72,693	51,252
Financial liabilities designated at fair value	64,796	78,561	87,997	97,729	87,881
Derivative financial instruments	320,634	462,721	527,910	405,516	403,416
Debt securities in issue	86,693	119,525	129,736	156,623	135,902
Subordinated liabilities	21,695	24,018	24,870	28,499	25,816
Other liabilities	20,193	17,542	16,315	18,362	20,310
Total liabilities	1,248,318	1,428,349	1,498,124	1,430,040	1,323,699
Total equity					
Called up share capital and share premium	19,887	12,477	12,380	12,339	10,804
Other equity instruments	2,063	—	—	—	—
Other reserves	249	3,674	3,837	1,754	2,628
Retained earnings	33,186	34,464	38,135	34,743	31,408
Total equity excluding non-controlling interests	55,385	50,615	54,352	48,836	44,840
Non-controlling interests	8,564	9,371	9,607	11,404	11,201
Total equity	63,949	59,986	63,959	60,240	56,041
Total liabilities and equity	1,312,267	1,488,335	1,562,083	1,490,280	1,379,740
Risk weighted assets and capital ratios under CRD III					
Risk weighted assets	354,809	387,373	390,999	398,031	382,653
Core Tier 1 ratio	13.2%	10.8%	11.0%	10.8%	10.0%
Tier 1 ratio	15.7%	13.2%	12.9%	13.5%	13.0%
Risk asset ratio	19.9%	17.0%	16.4%	16.9%	16.6%
Net asset value per ordinary share ^a	331p	414p	446p	401p	393p
Number of ordinary shares of Barclays PLC (in millions)	16,113	12,243	12,199	12,182	11,412
Year-end United States Dollar Exchange rate	1.65	1.62	1.54	1.55	1.62
Year-end Euro exchange rate	1.20	1.23	1.19	1.16	1.12
Year-end Rand exchange rate	17.37	13.74	12.52	10.26	11.97

The financial information above is extracted from the published accounts. This information should be read together with the information included in the accompanying consolidated financial statements. All the comparatives have been restated to reflect the IAS 19 revised standard, however, only the 2012 comparative has been restated to reflect the IFRS 10 standard.

Note

a Net asset value per share is calculated by dividing shareholders equity, excluding non-controlling and other equity interests, by the number of issued ordinary shares.

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Balance sheet commentary

Total assets

Total assets decreased £176bn to £1,312bn principally reflecting lower derivative assets due to increases in forward interest rates and exposure reduction initiatives with central clearing parties and a reduction in cash and balances at central banks due to a decrease in the liquidity pool.

Cash and balances at central banks and items in course of collection from other banks decreased £41bn to £47bn as the cash contribution to the Group liquidity pool was reduced.

Trading portfolio assets decreased £13bn to £133bn due to a reduction in debt securities and other eligible bills driven by a decrease in trading activity within the rates business within the Investment Bank. This decrease was partially offset by an increase in equity securities reflecting higher client volume in the equities and prime services businesses in the Investment Bank.

Financial assets designated at fair value decreased by £8bn to £39bn primarily reflecting decreases in debt securities due to the unwinding of deals.

Derivative financial assets decreased £145bn to £324bn primarily driven by a reduction in interest rate derivatives reflecting the decrease in mark-to-market valuations driven by increases in the major interest rate forward curves and balance sheet reduction initiatives.

Available for sale investments increased £17bn to £92bn primarily driven by an increase in debt securities in the liquidity pool as the mix of the pool is being adjusted from cash to eligible securities to increase returns.

Total loans and advances to banks and customers remained stable at £468bn (2012: £464bn) including increased settlement balances of £8.5bn, £4.4bn additional balances in UK RBB acquired through Barclays Direct, £1.8bn growth within Barclaycard across the UK and international business and a £1.8bn increase within Wealth and Investment Management. These increases were offset by a £5.7bn decrease within South Africa primarily due to the depreciation of ZAR against GBP.

Reverse repurchase agreements increased by £10bn to £187bn, driven by increased matched book trading opportunities and trading desks' funding requirements.

Total liabilities

Total liabilities decreased £180bn to £1,248bn.

Deposits from banks decreased by £22bn to £55bn primarily driven by reduction in cash collateral due to lower derivative mark to market and reduced liquidity requirements.

Customer accounts increased by 11% to £428bn due to a £19.5bn increase in UK RBB deposits, a £15.2bn increase in settlements and cash collateral balances within the Investment Bank, a £9.6bn increase within Wealth and Investment Management, primarily reflected in the High Net Worth business, and a £9.1bn increase in the Corporate Bank, from UK deposit growth.

Repurchase agreements and other similar secured borrowing decreased £20bn to £197bn driven by a reduction in trading desks' funding requirements partially offset by increased matched book trading.

Trading portfolio liabilities increased £9bn to £53bn primarily driven by increases in equity securities and debt securities.

Financial liabilities designated at fair value decreased £14bn to £65bn primarily reflecting trade maturities, buybacks/unwinding of existing notes due to favourable market conditions and reduced funding requirements.

Derivative financial liabilities decreased £142bn to £321bn in line with the decrease in derivative assets.

Debt securities in issue decreased £33bn to £87bn due to non-renewal of certificates of deposit and commercial paper primarily driven by reduced funding requirements.

Subordinated liabilities decreased by £2bn to £22bn due to redemptions in the year of subordinated notes, exchange movements and fair value hedge movements. This was partially offset by the issuance of £652m of Contingent Capital Notes (CCNs) and £48m of other subordinated fixed rate notes.

Shareholders' equity

Total shareholders' equity increased £4bn to £64bn.

Share capital and share premium increased by £7bn to £20bn reflecting an increase of £5.8bn from the issuance of 3.2bn additional shares through the rights issue. Other equity instruments increased by £2.1bn due to the issuance of equity accounted AT1 securities. Retained earnings decreased £1bn to £33bn driven by dividends paid of £0.9bn and a £0.5bn reduction due to an increase in retirement benefit liabilities.

The available for sale reserve decreased £0.4bn to £0.1bn driven by net losses on the fair value of debt securities held as part of the liquidity pool, offset partially by gains from fair value movements on hedging instruments.

Currency translation reserve decreased £1.2bn to £1.1bn, largely due to the strengthening of GBP against the USD and ZAR.

Non-controlling interests decreased £0.8bn to £8.6bn, primarily reflecting dividend payments of £0.8bn and currency translation movements of £0.6bn due to the depreciation of ZAR against GBP. These movements were offset by profit after tax of £0.8bn.

Net asset value per share decreased 20% to 331p and net tangible asset value per share decreased 19% to 283p. The decreases were mainly attributable to the issuance of shares as part of the rights