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Financial review

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

issue, and decreases in the cash flow hedging and currency translation reserves.

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Analysis of results by business (audited)									
	UK RBB £m	Europe RBB £m	Africa RBB £m	Barclaycard £m	Investment Bank £m	Corporate Banking £m	Wealth and Investment Management £m	Head Office Functions and Other Operations £m	Total £m
As at 31 December 2013									
Total income net of insurance claims ^a	4,523	666	2,617	4,786	10,733	3,115	1,839	(344)	27,935
Credit impairment charges and other provisions ^b	(347)	(287)	(324)	(1,264)	(220)	(510)	(121)	2	(3,071)
Operating expenses ^c	(2,812)	(813)	(1,842)	(1,975)	(7,417)	(1,641)	(1,665)	(94)	(18,259)
Provision for PPI Redress	(660)	—	—	(690)	—	—	—	—	(1,350)
Provision for Interest Rate Hedging products redress	—	—	—	—	—	(650)	—	—	(650)
UK Bank Levy	(21)	(26)	(28)	(24)	(333)	(51)	(6)	(15)	(504)
Costs to achieve Transform	(175)	(403)	(26)	(49)	(262)	(114)	(158)	(22)	(1,209)
Other income/(losses) ^d	27	(133)	7	33	22	2	13	5	(24)
Profit/(loss) before tax from continuing operations	535	(996)	404	817	2,523	151	(98)	(468)	2,868
Total assets^e	152,931	45,009	33,522	38,897	863,792	113,867	37,561	26,688	1,312,267
As at 31 December 2012									
Total income net of insurance claims ^a	4,384	708	2,928	4,344	11,775	3,046	1,820	(3,996)	25,009
Credit impairment charges and other provisions ^b	(269)	(257)	(632)	(1,049)	(204)	(885)	(38)	(6)	(3,340)
Operating expenses	(2,877)	(787)	(1,960)	(1,826)	(7,425)	(1,672)	(1,505)	(165)	(18,217)
Provision for PPI Redress	(1,180)	—	—	(420)	—	—	—	—	(1,600)
Provision for Interest Rate Hedging products redress	—	—	—	—	—	(850)	—	—	(850)
UK Bank Levy	(17)	(20)	(24)	(16)	(206)	(39)	(4)	(19)	(345)
Other income/(losses) ^d	4	13	10	29	50	10	1	23	140
Profit/(loss) before tax from continuing operations	45	(343)	322	1,062	3,990	(390)	274	(4,163)	797
Total assets	134,554	46,119	42,228	38,156	1,073,663	87,841	24,480	41,294	1,488,335
As at 31 December 2011									
Total income net of insurance claims ^a	4,621	1,004	3,364	4,305	10,222	3,315	1,770	3,691	32,292
Credit impairment charges and other provisions ^b	(536)	(207)	(462)	(1,312)	(93)	(1,150)	(41)	(1,801)	(5,602)
Operating expenses ^c	(2,844)	(1,555)	(2,154)	(1,843)	(7,527)	(2,056)	(1,537)	(45)	(19,561)
Provision for PPI Redress	(400)	—	—	(600)	—	—	—	—	(1,000)
UK Bank Levy	(22)	(21)	(23)	(16)	(199)	(43)	(1)	—	(325)
Other income/(losses) ^d	3	12	5	31	12	(71)	(3)	(23)	(34)
Profit/(loss) before tax from									

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continuing operations	822	(767)	730	565	2,415	(5)	188	1,822	5,770
Total assets	127,123	50,243	45,852	34,780	1,158,706	92,890	20,821	31,668	1,562,083

Notes

- a The impact of own credit movements on the fair value of structured note issuance is a charge of £220m (2012: charge of £4,579m; 2011: gain of £2,708m). This charge is included within the results of Head Office Functions and Other Operations, reflecting the fact that the fair value movements relate to the credit worthiness of the issuer as a whole.
- b Credit impairment charges included £nil (2012: £nil, 2011: £1,800m) impairment on the investment in BlackRock, Inc. within the results of Head Office Functions and Other Operations.
- c Operating expenses includes £79m impairment of goodwill (2012: £nil, 2011: £597m) relating to Wealth & Investment Management (2012: £nil 2011:£nil), Europe RBB £nil (2012: £nil, 2011: £427m), Corporate Banking £nil (2012: £nil, 2011 £123m) and Barclaycard £nil (2012: £nil, 2011: £47m).
- d Other income/(losses) represents the share of post-tax results of associates and joint ventures, profit or (loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.
- e 2013 total assets include an allocation of liquidity pool assets previously held centrally.

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Analysis of results by business continued

The Group's activities have been organised under the following business groupings:

- UK RBB is a leading UK high street bank providing current account and savings products and Woolwich branded mortgages. UK RBB also provides unsecured loans and general insurance as well as banking and money transmission services to small and medium sized businesses.
- Europe RBB provides retail services in Spain, Italy, Portugal and France, as well as business lending to small and medium sized enterprises, through a variety of distribution channels.
- Africa RBB provides retail services across Africa and the Indian Ocean.
- Barclaycard is an international payments services provider for consumer and business customers including credit cards and consumer lending.
- The Investment Bank provides large corporate, government and institutional clients with a full spectrum of solutions to meet their strategic advisory, financing and risk management needs.
- Corporate Banking provides integrated banking solutions to large corporates, financial institutions and multinationals in the UK and internationally.
- Wealth and Investment Management focuses on private and intermediary clients worldwide, providing international and private banking, investment management, fiduciary services and brokerage.
- Head Office Functions and Other Operations comprise head office and central support functions, businesses in transition and consolidation adjustments.

In order to align aggregated businesses' results more closely to those of the Group, the following elements, previously included within the Head Office and Other Operations results have been allocated to the businesses:

- Intra-group allocation of funding costs and other income items now includes the majority of the costs of subordinated debt instruments, preference shares and allocation of liquidity costs; increased allocation of intra-group interest; and the elimination of fees to the Investment Bank for Structured Capital Markets activities.
- Head Office operating cost items, including the UK bank levy and Financial Services Compensation Scheme costs, have been allocated to businesses wherever practicable using the most appropriate driver of that cost.

The impact of the above allocations was an increase in Head Office and Other Operations profit before tax in 2012 of £1,281m (2011: £900m), offset by decreases in Investment Bank profit before tax in 2012 of £701m (2011: £573m), UK RBB of £220m (2011: £136m), Corporate Banking of £111m (2011: £24m), Africa RBB of £98m (2011: £80m), Barclaycard of £58m (2011: £35m), Europe RBB of £57m (2011: £43m), and Wealth and Investment Management of £36m (2011: £9m).

Portfolio reallocations also occurred to better reflect the management of the relevant businesses. The reallocations resulted in increases in profit before tax in 2012 in Barclaycard of £37m (2011: £52m), Corporate Banking of £28m (2011: £31m), and Investment Bank of £17m (2011: £17m), offset by decreases in Europe RBB of £52m (2011: £70m), and Africa RBB of £30m (2011: £30m).

[Income by geographic region \(audited\)^c](#)

	Adjusted ^{a,b}			Statutory		
	2013 £m	2012 £m	2011 £m	2013 £m	2012 £m	2011 £m
Continuing operations						
UK ^a	11,681	12,040	11,981	11,461	7,461	15,819
Europe	4,019	4,457	4,207	4,019	4,457	4,207
Americas ^b	7,034	7,327	6,083	7,034	7,554	6,025
Africa and Middle East	4,137	4,472	4,967	4,137	4,472	4,967
Asia	1,284	1,065	1,274	1,284	1,065	1,274
Total	28,155	29,361	28,512	27,935	25,009	32,292

[Statutory income from individual countries which represent more than 5% of total income \(audited\)^c](#)

	2013 £m	2012 £m	2011 £m
Continuing operations			
UK	11,461	7,461	15,819
US	6,760	7,333	5,802
South Africa	2,884	3,700 ^d	3,942

[Returns and equity by business](#)

Returns on average equity and average tangible equity are calculated as profit for the period attributable to ordinary equity holders of the parent divided by average allocated equity or average allocated tangible equity for the period as appropriate, excluding non-controlling and

intangible assets, reflecting the assumptions the Group uses for capital planning purposes. The higher capital level currently held, reflecting Core Tier 1 capital ratio of 13.2% as at 31 December 2013, is allocated to Head Office and Other Operations. Average allocated tangible

other equity interests. Average allocated equity has been calculated as 10.5% of average risk weighted assets for each business, adjusted for capital deductions, including goodwill and

equity is calculated using the same method but excludes goodwill and intangible assets.

Notes

- a UK adjusted income excludes the impact of an own credit charge of £220m (2012: £4,579m charge, 2011: gain of £2,708m), and gain on debt buy backs £nil (2012: £nil, 2011: gain of £1,130m).
- b Americas adjusted income also excludes gain on disposal of strategic investment in BlackRock, Inc. of £nil (2012: £227m, 2011: loss of £58m).
- c Total income net of insurance claims based on counterparty location.
- d 2012 income derived from South Africa has been revised following a review of the 2012 method of allocation. £511m of 2012 income has now been allocated from South Africa to other African countries.

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Return on average equity						
	Adjusted			Statutory		
	2013	2012	2011	2013	2012	2011
	%	%	%	%	%	%
UK RBB	11.5	12.3	12.0	4.9	(0.3)	7.8
Europe RBB	(45.2)	(12.9)	(9.7)	(45.2)	(12.9)	(26.0)
Africa RBB	0.4	(0.1)	7.4	0.4	(0.1)	7.5
Barclaycard	18.4	19.8	16.1	8.3	13.3	6.0
Investment Bank	8.2	12.7	7.7	8.2	12.7	7.7
Corporate Banking	3.1	2.9	0.4	(3.5)	(5.4)	(2.0)
Wealth and Investment Management	(1.0)	11.2	9.5	(4.5)	11.2	9.5
Group Excluding Head Office Functions & Other Operations	5.8	9.8	7.0	2.3	5.9	4.1
Head Office and Other Operations Impact	(1.3)	(0.8)	(0.3)	(1.3)	(7.1)	1.8
Group	4.5	9.0	6.7	1.0	(1.2)	5.9
Return on average tangible equity						
	Adjusted			Statutory		
	2013	2012	2011	2013	2012	2011
	%	%	%	%	%	%
UK RBB	20.0	22.9	22.5	8.5	(0.6)	14.7
Europe RBB	(49.6)	(14.2)	(12.6)	(49.6)	(14.2)	(33.7)
Africa RBB ^a	0.8	(0.2)	16.9	0.8	(0.2)	17.1
Barclaycard	24.5	26.9	21.4	11.1	18.0	8.0
Investment Bank	8.5	13.1	8.0	8.5	13.1	8.0
Corporate Banking	3.3	3.1	0.4	(3.6)	(5.7)	(2.1)
Wealth and Investment Management	(1.4)	15.5	13.0	(5.9)	15.5	13.0
Group Excluding Head Office Functions & Other Operations	7.0	11.8	8.5	2.7	7.1	5.0
Head Office and Other Operations Impact	(1.7)	(1.2)	(0.4)	(1.5)	(8.5)	2.1
Group	5.3	10.6	8.1	1.2	(1.4)	7.1
Attributable profit						
	Adjusted			Statutory		
	2013	2012	2011	2013	2012	2011
	£m	£m	£m	£m	£m	£m
UK RBB	917	875	841	389	(21)	547
Europe RBB	(964)	(277)	(257)	(964)	(277)	(684)
Africa RBB	9	(4)	207	9	(4)	209
Barclaycard	1,006	975	780	454	653	292
Investment Bank	1,548	2,680	1,636	1,548	2,680	1,636
Corporate Banking	247	228	32	(273)	(419)	(164)
Wealth and Investment Management	(24)	222	166	(103)	222	166
Head Office Functions and Other Operations	(344)	(64)	(166)	(520)	(3,458)	922
Group	2,395	4,635	3,239	540	(624)	2,924
Average allocated equity						
	Average allocated equity			Average allocated tangible equity		
	2013	2012	2011	2013	2012	2011
	£m	£m	£m	£m	£m	£m
UK RBB	7,984	7,121	6,992	4,581	3,815	3,733
Europe RBB	2,133	2,143	2,634	1,943	1,957	2,028
Africa RBB	2,327	2,658	2,801	1,087	1,234	1,222
Barclaycard	5,468	4,924	4,844	4,106	3,623	3,648
Investment Bank	18,966	21,173	21,254	18,264	20,468	20,503
Corporate Banking	7,854	7,739	8,124	7,481	7,369	7,621
Wealth and Investment Management	2,306	1,981	1,738	1,746	1,436	1,273
Head Office Functions and Other Operations ^b	5,130	4,313	1,404	5,110	4,311	1,401
Group^c	52,168	52,052	49,791	44,318	44,213	41,429

Notes

- a The return on average tangible equity for Africa RBB for 2011 and 2012 has been revised to exclude amounts relating to Absa Group's non-controlling interests.
- b Includes risk weighted assets and capital deductions in Head Office and Other Operations, plus the residual balance of average ordinary shareholders' equity and tangible ordinary shareholders' equity.
- c Group average ordinary shareholders' equity and average tangible ordinary shareholders' equity exclude the cumulative impact of own credit on retained earnings for the calculation of adjusted performance measures.

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UK Retail and Business Banking

£4,523m
total income net of insurance
claims
 Up from £4,384m in 2012

£1,195m
adjusted profit before tax
 Down from £1,225m in 2012

2013

Income increased 3% to £4,523m driven by strong mortgage growth and contribution from Barclays Direct (previously ING Direct UK, acquired during Q113).

Net interest income increased 6% to £3,395m. Net interest margin was down 6bps to 129bps primarily reflecting reduced contributions from structural hedges, however, customer generated margin increased from 102bps to 106bps. Customer asset margin increased 15bps to 122bps driven by lower funding costs and increased customer rates on new mortgage lending. Customer liability margin decreased 8bps to 89bps reflecting lower funding rates.

Net fee and commission income declined 5% to £1,098m due primarily to lower fees from customers.

Credit impairment charges increased £78m to £347m primarily due to the non-recurrence of provision releases in 2012 relating to unsecured lending and mortgages. Excluding this, impairment was broadly in line with prior year.

Adjusted operating expenses increased 4% to £3,008m due to costs to achieve Transform of £175m. Statutory operating expenses decreased by 10% to £3,668m due to the lower charge for PPI redress of £660m (2012: £1,180m).

Adjusted profit before tax decreased 2% to £1,195m, while statutory profit before tax was £535m (2012: £45m).

Loans and advances to customers increased 7% to £136.5bn due to Barclays Direct, which added £4.4bn, and other mortgage growth. Mortgage balances increased to £122.8bn (2012: £114.7bn), giving an increase in share of UK stock balance to 9.9% (2012: 9.4%). Gross new mortgage lending was £17.1bn (2012: £18.2bn) and mortgage repayments were £14.4bn (2012: £10.6bn). Portfolio quality continued to improve with an average balance weighted Loan to Value (LTV) ratio on the mortgage portfolio (including buy-to-let) of 56% (2012: 59%). Average balance weighted LTV of new mortgage lending was 64% (2012: 65%).

Customer deposits increased 17% to £135.5bn driven by growth in savings and Barclays Direct, which added £6.2bn.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	3,395	3,190	3,378
Net fee and commission income	1,098	1,154	1,157
Net investment income	—	—	17
Net premiums from insurance contracts	46	74	92
Other income/(expense)	1	(1)	(1)
Total income	4,540	4,417	4,643
Net claims and benefits incurred under insurance contracts	(17)	(33)	(22)
Total income net of insurance claims	4,523	4,384	4,621
Credit impairment charges and other provisions	(347)	(269)	(536)
Net operating income	4,176	4,115	4,085
Operating expenses (excluding UK bank levy, costs to achieve Transform and provision for PPI redress)	(2,812)	(2,877)	(2,844)
UK bank levy	(21)	(17)	(22)
Costs to achieve Transform	(175)	—	—
Provision for PPI redress	(660)	(1,180)	(400)
Operating expenses	(3,668)	(4,074)	(3,266)
Other net income	27	4	3
Profit before tax	535	45	822
Adjusted profit before tax^a	1,195	1,225	1,222
Adjusted attributable profit ^{a,b}	917	875	841
Balance Sheet Information			
Loans and advances to customers at amortised cost	£136.5bn	£128.1bn	£121.2bn
Customer deposits	£135.5bn	£116.0bn	£111.8bn

Total assets ^c	£152.9bn	£134.6bn	£127.1bn
Risk weighted assets – CRD III ^c	£44.1bn	£39.1bn	£34.0bn
Risk weighted assets – CRD IV fully loaded ^c	£44.1bn		

Notes

a Adjusted profit before tax and adjusted attributable profit excludes the impact of the provision for PPI redress of £660m (2012: £1,180m; 2011: £400m).

b Adjusted attributable profit represents profit after tax excluding non-controlling interests' share of those profits.

c 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on UK RBB business model and strategy please see pages 18 to 21

Total assets increased 14% to £152.9bn driven by the allocation of liquidity pool assets previously held centrally, and growth in loans and advances to customers.

CRD III RWAs increased 13% to £44.1bn primarily driven by Barclays Direct and mortgage asset growth.

2012

Income declined 5% to £4,384m reflecting higher funding costs and reduced contribution from structural hedges, including non-recurrence of gains from the disposal of hedging instruments in 2011.

Net interest income declined 6% to £3,190m with net interest margin down 14bps to 135bps principally due to reduced contributions from structural hedges. Customer asset margin decreased 15bps to 107bps reflecting higher funding costs. Average customer assets increased 5% to £124.3bn driven by mortgage growth. Customer liability margin increased 10bps to 97bps reflecting an increase in funding rates and therefore the value generated from customer liabilities. Average customer liabilities increased 4% to £111.8bn due to personal savings deposit growth.

Non-interest income declined 3% to £1,227m reflecting lower net insurance income.

Credit impairment charges decreased 50% to £269m reflecting improvements across all portfolios, principally in personal unsecured lending. The loan loss rate reduced to 21bps (2011: 44bps). 90 day arrears rates improved 40bps on UK personal loans to 1.3% and UK mortgages remained flat at 0.3%.

Adjusted operating expenses increased 1% to £2,894m. Statutory operating expenses increased 25% to £4,074m due to the higher charge for PPI redress of £1,180m (2011: £400m).

Adjusted profit before tax remained flat at £1,225m (2011: £1,222m), while statutory profit before tax declined 95% to £45m.

Loans and advances to customers increased 6% to £128.1bn driven by growth in mortgage balances to £114.7bn at 31 December 2012 (2011: £107.8bn). Gross new mortgage lending of £18.2bn (2011: £17.2bn) and mortgage redemptions of £11.3bn (2011: £10.7bn) resulted in net new mortgage lending of £6.9bn (2011: £6.5bn). Average LTV ratio for the mortgage portfolio (including buy-to-let) on a balance weighted basis was 59% (2011: 58%). Average balance weighted LTV of new mortgage lending was 65% (2011: 62%).

Customer deposits increased 4% to £116.0bn primarily driven by growth in savings from Individual Savings Accounts (ISAs) and retail bonds.

CRD III RWAs increased 15% to £39.1bn principally due to mortgage balance growth, an increased operational risk charge and adoption of a more comprehensive approach to loans subject to forbearance.

	Adjusted ^a			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity	20.0%	22.9%	22.5%	8.5%	(0.6%)	14.7%
Return on average equity	11.5%	12.3%	12.0%	4.9%	(0.3%)	7.8%
Return on average risk weighted assets	2.2%	2.5%	2.5%	1.0%	0.0%	1.7%
Cost: income ratio	67%	66%	62%	81%	93%	71%
Loan loss rate (bps)	25	21	44	25	21	44
Key Facts						
90 day arrears rates – Personal loans				1.2%	1.3%	1.7%
90 day arrears rates – Home loans				0.3%	0.3%	0.3%
Average LTV of mortgage portfolio ^b				56%	59%	58%
Average LTV of new mortgage lending ^b				64%	65%	62%
Number of customers				16.7m	15.8m	16.1m
Number of branches				1,560	1,593	1,625
Number of employees (full time equivalent)				32,900	33,000	32,400

Notes

a Adjusted performance measures exclude the impact of the provision for PPI redress of £660m (2012: £1,180m; 2011: £400m).

b Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis. The comparative figure was restated following a detailed review of the LTVs post migration to a new data management system.

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£666m

total income net of insurance claims

Down from £708m in 2012

£996m

adjusted loss before tax

Up from £343m in 2012

2013

Income declined 6% to £666m, reflecting actions taken to reduce assets, particularly in Spain and Italy, to address the continuing economic challenges across Europe, partially offset by an increase due to foreign currency movements.

Net interest income declined 2% to £420m due to the decline in average customer balances. Net interest margin remained broadly in line at 79bps (2012: 78bps) with improved pricing offset by higher funding costs.

Net fee and commission income declined 25% to £187m, reflecting reduced business volumes.

Net premiums from insurance contracts declined 17% to £276m due to reduced business volumes, following rationalisation of product offerings, leading to a corresponding 14% decline in net claims and benefits to £308m.

Credit impairment charges increased 12% to £287m due to exposure to the renewable energy sector in Spain, foreign currency movements and increased coverage for high risk mortgage customers. This was offset in part by improvement in collections performance.

Operating expenses increased by £435m to £1,242m, almost entirely reflecting costs to achieve Transform of £403m. These related to restructuring costs to significantly downsize the distribution network, with the remaining increase driven by foreign currency movements partially offset by cost savings resulting from restructuring.

Other net expense increased by £146m to £133m due to a valuation adjustment relating to contractual obligations to trading partners based in locations affected by our restructuring plans.

Loss before tax increased £653m to £996m, including costs to achieve Transform of £403m and an increase in other net expenses. Attributable loss increased to £964m (2012: £277m), including the impact of a deferred tax assets write down relating to Spain and the increase in loss before tax.

Loans and advances to customers fell by 6% to £37.0bn, driven by asset reduction activity as part of the Transform strategy, partially offset by foreign currency movements. Mortgage balances decreased to £33.6bn (2012: £34.8bn). The average balance weighted LTV ratio on the Spain mortgage portfolio was 63% (2012: 65%), on the Italy mortgage portfolio was 60% (2012: 60%) and the Portugal mortgage portfolio was 76% (2012: 78%).

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	420	428	610
Net fee and commission income	187	248	376
Net investment income	78	52	91
Net premiums from insurance contracts	276	331	463
Other income/(expense)	13	8	(33)
Total income	974	1,067	1,507
Net claims and benefits incurred under insurance contracts	(308)	(359)	(503)
Total income net of insurance claims	666	708	1,004
Credit impairment charges and other provisions	(287)	(257)	(207)
Net operating income	379	451	797
Operating expenses (excluding UK bank levy, costs to achieve Transform and goodwill impairment)	(813)	(787)	(1,128)
UK bank levy	(26)	(20)	(21)
Costs to achieve Transform	(403)	—	—
Goodwill impairment	—	—	(427)
Operating expenses	(1,242)	(807)	(1,576)
Other net (expense)/income	(133)	13	12
Loss before tax	(996)	(343)	(767)
Adjusted loss before tax^a	(996)	(343)	(340)
Adjusted attributable loss ^{a,b}	(964)	(277)	(257)

Balance Sheet Information

Loans and advances to customers at amortised cost	£37.0bn	£39.2bn	£42.7bn
Customer deposits	£16.3bn	£17.6bn	£16.4bn
Total assets ^c	£45.0bn	£46.1bn	£50.2bn
Risk weighted assets – CRD III ^c	£15.9bn	£15.8bn	£16.4bn
Risk weighted assets – CRD IV fully loaded ^c	£16.2bn		

Notes

a Adjusted loss before tax and adjusted attributable loss excludes the impact of goodwill impairment £nil (2012: £nil; 2011: £427m).

b Adjusted attributable loss represents loss after tax excluding non-controlling interests' share of those losses.

c 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on Europe RBB business model and strategy please see pages 22 to 25

Customer deposits reduced by 7% to £16.3bn with customer attrition partially offset by foreign currency movements.

Total assets reduced by 2% to £45.0bn driven by the reduction in loans and advances to customers.

CRD III RWAs remained broadly flat at £15.9bn (2012: £15.8bn), with a reduction in Exit Quadrant RWAs offset by changes due to the treatment of forbearance.

2012

Income declined 29% to £708m reflecting the challenging economic environment across Europe and non-recurrence of gains from disposal of hedging instruments in 2011.

Net interest income declined 30% to £428m. Customer asset margin decreased 5bps to 46bps with net interest margin down 23bps to 78bps, driven by higher funding costs partially offset by product re-pricing. Average customer assets decreased 6% to £40.0bn driven by active management to reduce funding mismatch. Customer liability margin decreased 27bps to 38bps and average customer liabilities decreased 16% to £14.8bn, reflecting competitive pressures.

Non-interest income declined 29% to £639m, reflecting lower commissions mainly from Italy mortgage sales and lower sales of investment products.

Credit impairment charges increased 24% to £257m due to deterioration in credit performance across Europe, reflecting current economic conditions. The loan loss rate increased to 64bps (2011: 43bps). 90 day arrears rate for home loans increased 19bps to 0.8%.

Adjusted operating expenses decreased 30% to £807m, reflecting non-recurrence of 2011 restructuring charges of £189m and related ongoing cost savings. Statutory operating expenses decreased 49% to £807m due to the non-recurrence of the £427m goodwill impairment write off in 2011.

Adjusted loss before tax remained flat at £343m (2011: £340m), while statutory loss before tax decreased 55% to £343m resulting from the non-recurrence of the 2011 goodwill impairment write off.

Loans and advances to customers decreased 8% to £39.2bn reflecting currency movements and active management to reduce funding mismatch.

Customer deposits increased 7% to £17.6bn, reflecting active management to reduce funding mismatch.

Total assets reduced by 8% to £46.1bn driven by the reduction in loans and advances to customers.

CRD III RWAs decreased 4% to £15.8bn principally due to reductions in loans and advances to customers and currency movements, partially offset by an increased operational risk charge and portfolio deterioration in Spain.

	Adjusted ^a			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity	(49.6%)	(14.2%)	(12.6%)	(49.6%)	(14.2%)	(33.7%)
Return on average equity	(45.2%)	(12.9%)	(9.7%)	(45.2%)	(12.9%)	(26.0%)
Return on average risk weighted assets	(5.7%)	(1.7%)	(1.4%)	(5.7%)	(1.7%)	(4.0%)
Cost: income ratio	186%	114%	114%	186%	114%	157%
Loan loss rate (bps)	75	64	43	75	64	43
Key Facts						
90 day arrears rates – Home loans				0.8%	0.8%	0.7%
Average LTV of mortgage portfolio – Spain ^b				63%	65%	60%
Average LTV of mortgage portfolio – Italy ^b				60%	60%	59%
Average LTV of mortgage portfolio – Portugal ^b				76%	78%	70%
Number of customers				1.8m	2.0m	2.0m
Number of branches				572	923	978
Number of sales centres				61	219	250
Number of distribution points				633	1,142	1,228
Number of employees (full time equivalent)				5,900	7,500	8,100
EUR/£ – Period end				1.20	1.23	1.19
EUR/£ – Average				1.18	1.23	1.15

Notes

a Adjusted performance measures exclude the impact of goodwill impairment £nil (2012: £nil; 2011: £427m).
b Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis.

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£2,617m
total income net of insurance claims
Down from £2,928m in 2012

£404m
adjusted profit before tax
Up from £322m in 2012

2013

Income declined 11% to £2,617m driven by foreign currency movements, partially offset by the non-recurrence of fair value adjustments in the commercial property finance portfolio in the prior year. On a constant currency basis, income improved 5%, despite continued pressure on transaction volumes in a competitive environment.

Net interest income declined 13% to £1,437m. On a constant currency basis, net interest income improved 2%. Net interest margin was down 3bps to 316bps. Customer asset margin remained stable at 310bps, with continued focus on competitive pricing of key products including home loans, personal loans and vehicle and asset finance. Customer liability margin decreased 2bps to 273bps driven by increased competition and a change in product mix towards lower margin savings products.

Net fee and commission income declined 13% to £924m. On a constant currency basis, income increased 2%.

Credit impairment charges decreased 49% to £324m. On a constant currency basis, credit impairment charges decreased 41% due to lower provisions on the South African home loans recovery book and business banking portfolio. This decrease was partly offset by deterioration in the South African unsecured lending portfolio due to the challenging economic environment. This fall in impairment resulted in a loan loss rate of 128bps (2012: 202bps).

Operating expenses decreased 4% to £1,896m. On a constant currency basis, costs increased 11% driven by a combination of increased investment spend on infrastructure and inflation increases in South Africa.

Profit before tax increased 25% to £404m, primarily due to lower credit impairment charges in the South African home loans recovery book and business banking portfolio, along with the non-recurrence of fair value adjustments on the commercial property finance portfolio in the prior year.

Loans and advances to customers decreased 19% to £24.2bn as foreign currency movements offset growth of 2%, particularly in vehicle and asset finance. The average balance weighted LTV ratio on the mortgage portfolio was 62% (2012: 66%). The average balance weighted LTV of new mortgage lending was 75% (2012: 76%).

Customer deposits decreased 13% to £16.9bn. Excluding foreign currency movements, deposits increased 8% reflecting growth in individual deposits, particularly in investment products.

Total assets decreased 21% to £33.5bn mainly due to foreign currency movements. On a constant currency basis, total assets were broadly in line.

CRD III RWAs decreased 9% to £22.4bn, primarily due to foreign currency movements, partially offset by balance sheet growth.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	1,437	1,654	1,874
Net fee and commission income	924	1,065	1,179
Net premiums from insurance contracts	359	417	432
Other income/(expense)	81	(1)	94
Total income	2,801	3,135	3,579
Net claims and benefits incurred under insurance contracts	(184)	(207)	(215)
Total income net of insurance claims	2,617	2,928	3,364
Credit impairment charges and other provisions	(324)	(632)	(462)
Net operating income	2,293	2,296	2,902
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(1,842)	(1,960)	(2,154)
UK bank levy	(28)	(24)	(23)
Costs to achieve Transform	(26)	—	—
Operating expenses	(1,896)	(1,984)	(2,177)
Other net income	7	10	5
Profit before tax	404	322	730
Attributable profit/(loss) ^a	9	(4)	207
Balance Sheet Information			
Loans and advances to customers at amortised cost	£24.2bn	£29.9bn	£32.5bn
Customer deposits	£16.9bn	£19.5bn	£20.3bn
Total assets ^b	£33.5bn	£42.2bn	£45.9bn

Risk weighted assets – CRD III ^b	£22.4bn	£24.5bn	£27.8bn
Risk weighted assets – CRD IV fully loaded ^b	£22.8bn		

Notes

a Attributable profit/(loss) represents profit/(loss) after tax excluding non-controlling interests' share of those profits/(losses).

b 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on Africa RBB business model and strategy please see pages 26 to 29

2012

Income declined 13% to £2,928m. Excluding foreign currency movements, income declined reflecting non-recurrence of gains from the disposal of Group hedging instruments in 2011 and downward commercial property valuations, with underlying businesses across Africa remaining flat.

Net interest income declined 12% to £1,654m with the net interest margin down 9bps to 319bps primarily due to lower income generated through non-customer related items partially offset by increased higher margin business. Customer asset margin increased 14bps to 310bps reflecting a change in composition towards higher margin business. Average customer assets decreased 11% to £32.2bn driven by currency movements and a modest decline in the South African mortgage book. Customer liability margin decreased 15bps to 275bps driven by a decline in South Africa, partially offset by improving margins across a number of other African countries. Average customer liabilities decreased 7% to £19.6bn driven by foreign currency movements, as deposits continued to grow in South Africa where Absa remains a leader in retail deposits.

Non-interest income declined 13% to £1,481m driven largely by adverse currency movements.

Credit impairment charges increased 37% to £632m. Excluding foreign currency movements impairment charges increased principally reflecting higher loss given default rates and higher levels of write-offs in the South African home loans recovery book and the impact of one large name in the commercial property portfolio in South Africa. The loan loss rate increased to 202bps (2011: 136bps). However, 90 day arrears rates for home loans decreased by 150bps to 1.6% reflecting improved new business and the continuing low interest rate environment.

Operating expenses decreased 9% to £1,984m mainly due to foreign currency movements with underlying business growth broadly in line.

Profit before tax declined 56% to £322m.

Loans and advances to customers decreased 8% to £29.9bn mainly due to foreign currency movements and a modest decline in the South African mortgage book.

Customer deposits decreased 4% to £19.5bn. Excluding foreign currency movements customer deposits increased mainly due to growth in South African deposits.

CRD III RWAs decreased 12% to £24.5bn, principally due to foreign currency movements and a change in approach for sovereign risk weightings, offset by an increased operational risk charge.

	Adjusted			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity ^a	0.8%	(0.2%)	16.9%	0.8%	(0.2%)	17.1%
Return on average equity	0.4%	(0.1%)	7.4%	0.4%	(0.1%)	7.5%
Return on average risk weighted assets	0.9%	0.7%	1.7%	0.9%	0.7%	1.7%
Cost: income ratio	72%	68%	65%	72%	68%	65%
Loan loss rate (bps)	128	202	136	128	202	136
Key Facts						
90 days arrears rate – Home loans				0.7%	1.6%	3.1%
90 days arrears rate – unsecured				2.6%	3.1%	3.8%
Average LTV of mortgage portfolio ^b				62%	66%	67%
Average LTV of new mortgage lending ^b				75%	76%	73%
Number of customers				12.1m	13.5m	14.5m
Number of branches				1,268	1,339	1,354
Number of sales centres				128	112	139
Number of distribution points				1,396	1,451	1,493
Number of employees (full time equivalent)				41,300	40,500	42,700
ZAR/£ – Period end				17.37	13.74	12.52
ZAR/£ – Average				15.10	13.03	11.60

Notes

- a Return on average tangible equity for 2011 and 2012 has been revised to exclude amounts relating to Absa Group's non-controlling interests.
b Average LTV of mortgage portfolio and new mortgage lending calculated on the balance weighted basis.

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Barclaycard

£4,786m
total income net of insurance claims
 Up from £4,344m in 2012

£1,507m
adjusted profit before tax
 Up from £1,482m in 2012

2013

Income improved 10% to £4,786m reflecting continued net lending growth and contributions from 2012 portfolio acquisitions. UK income increased 6% to £2,747m reflecting net lending growth and lower funding costs. International income improved 17% to £2,039m reflecting contributions from 2012 portfolio acquisitions and higher customer asset balances in the US and Germany.

Net interest income increased 10% to £3,318m driven by volume growth and a lower impact from structural hedges. Customer asset margin remained broadly stable at 9.39% with average customer assets increasing 8% to £36.3bn due to 2012 portfolio acquisitions and business growth. Customer liability margin was negative 0.29% reflecting deposit funding initiatives in the US and Germany.

Net fee and commission income improved 11% to £1,435m due to increased payment volumes, predominantly in the US and UK.

Credit impairment charges increased 20% to £1,264m primarily driven by the impact of portfolio acquisitions, and non-recurrence of provision releases in 2012. Impairment loan loss rates on consumer credit cards remained broadly stable at 366bps (2012: 359bps) in the UK, remained flat at 268bps in the US, and increased by 421bps to 581bps in South Africa due to the Edcon acquisition driving a change in product mix. 30 day arrears rates for consumer cards in the UK were down 10bps to 2.4%, in the US were down 30bps to 2.1% and in South Africa were up 70bps to 8.1%.

Adjusted operating expenses increased 11% to £2,048m reflecting increased costs from 2012 portfolio acquisitions, net lending growth, higher operating losses and costs to achieve Transform. Statutory operating expenses increased 21% to £2,738m due to the increased charge for PPI redress of £690m (2012: £420m).

Adjusted profit before tax improved 2% to £1,507m driven by the US and UK card portfolios, while statutory profit before tax decreased to £817m (2012: £1,062m) due to the increased charge for PPI redress.

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

Customer deposits increased by £2.4bn to £5.2bn due to funding initiatives in the US and Germany.

CRD III RWAs increased 9% to £41.1bn primarily driven by asset growth and model changes in order to meet changes in regulatory guidance.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	3,318	3,009	3,047
Net fee and commission income	1,435	1,292	1,201
Net premiums from insurance contracts	26	36	42
Other income	7	7	16
Total income net of insurance claims	4,786	4,344	4,306
Credit impairment charges and other provisions	(1,264)	(1,049)	(1,312)
Net operating income	3,522	3,295	2,993
Operating expenses (excluding UK bank levy, costs to achieve Transform, provision for PPI redress and goodwill impairment)	(1,975)	(1,826)	(1,796)
UK bank levy	(24)	(16)	(16)
Costs to achieve Transform	(49)	—	—
Provision for PPI redress	(690)	(420)	(600)
Goodwill impairment	—	—	(47)
Operating expenses	(2,738)	(2,262)	(2,459)
Other net income	33	29	31
Profit before tax	817	1,062	565
Adjusted profit before tax^a	1,507	1,482	1,212
Adjusted attributable profit ^{a,b}	1,006	975	780
Balance Sheet Information			
Loans and advances to customers at amortised cost	£35.6bn	£33.8bn	£31.0bn
Customer deposits	£5.2bn	£2.8bn	£0.6bn
Total assets ^c	£38.9bn	£38.2bn	£34.8bn

Risk weighted assets – CRD III ^c	£41.1bn	£37.8bn	£35.2bn
Risk weighted assets – CRD IV fully loaded ^c	£40.5bn		

Notes

- a Adjusted profit before tax and adjusted attributable profit excludes the impact of the provision for PPI redress of £690m (2012: £420m; 2011: £600m) and goodwill impairment in Firstplus secured lending portfolio of £nil (2012: £nil; 2011: £47m).
- b Adjusted attributable profit represents profit after tax excluding non-controlling interests' share of those profits.
- c 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on Barclaycard business model and strategy please see pages 30 to 33

2012

Income increased 1% to £4,344m reflecting continued growth across the business and contributions from portfolio acquisitions. This was partially offset by higher funding costs, non-recurrence of gains from the disposal of hedging instruments in 2011 and depreciation of ZAR against GBP. UK income decreased 1% to £2,601m including contribution from 2011 portfolio acquisitions and business growth, offset by increased funding costs. International income improved 4% to £1,743m driven by higher US outstanding balances and contribution from portfolio acquisitions.

Net interest income remained flat at £3,009m. Contributions from business growth and acquisitions were offset by lower net interest margin of 866bps (2011: 970bps), which stabilised in the second half of the year. Average customer assets increased 6% to £33.5bn due to portfolio acquisitions and business growth. Customer asset margin was down 14bps to 956bps due to higher funding costs.

Non-interest income improved 6% to £1,335m driven by increased volumes in the Business Payment and US portfolios.

Credit impairment charges decreased 20% to £1,049m resulting from improved delinquency, lower charge-offs and better recovery rates, primarily in the first half of 2012. The loan loss rate improved by 100bps to 294bps. 30 day arrears rates for consumer cards in UK were down to 2.5% (2011: 2.7%), in the US were down to 2.4% (2011: 3.1%) and in South Africa were up to 7.4% (2011: 4.8%).

Adjusted operating expenses increased 2% to £1,842m reflecting portfolio acquisitions, provision for certain other insurance products and investment spend. Statutory operating expenses decreased 8% to £2,262m due to the lower charge for PPI redress of £420m (2011: £600m).

Adjusted profit before tax improved 22% to £1,482m, while statutory profit before tax increased by £497m to £1,062m due to the lower charge for PPI redress.

Customer deposits increased £2.2bn to £2.8bn due to business funding initiatives in the US and Germany.

Total assets increased 10% to £38.2bn primarily driven by business growth and acquisitions.

CRD III RWAs increased 7% to £37.8bn, principally due to growth in assets and an increased operational risk charge.

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	Adjusted ^a			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity	24.5%	26.9%	21.4%	11.1%	18.0%	8.0%
Return on average equity	18.4%	19.8%	16.1%	8.3%	13.3%	6.0%
Return on average risk weighted assets	2.8%	3.1%	2.5%	1.4%	2.2%	1.1%
Cost: income ratio	43%	42%	42%	57%	52%	57%
Loan loss rate (bps)	337	294	394	337	294	394
Key Facts						
30 day arrears rates – UK cards				2.4%	2.5%	2.7%
30 day arrears rates – US cards				2.1%	2.4%	3.1%
30 day arrears rates – South Africa cards ^b				8.1%	7.4%	4.8%
Total number of Barclaycard customers				35.5m	32.8m	25.3m
Total number of Barclaycard clients				350,200	315,500	309,400
Value of payments processed				£ 254bn	£ 235bn	£ 214bn
Number of employees (full time equivalent)				12,100	11,100	10,900

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Notes

a Adjusted performance measures exclude the impact of the provision for PPI redress of £690m (2012: £420m; 2011: £600m) and goodwill impairment in Firstplus secured lending portfolio of £nil (2012: £nil; 2011: £47m).

b 2012 30 day arrears rates on South Africa cards restated to reflect the Edcon portfolio acquisition.

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Investment Bank

£10,733m
total income

Down from £11,775m in 2012

Equities and Prime Services income increased 22% to £2,672m reflecting higher commission income and increased client volumes.

Investment Banking income increased 3% to £2,200m driven by increased equity underwriting fees, partly offset by declines in financial advisory activity.

Principal Investments income declined to £62m (2012: £206m) due to disposals and lower private equity income.

£2,523m
profit before tax

Down from £3,990m in 2012

Exit Quadrant income reduced £309m to £262m due to accelerated disposals throughout 2013 and the prior year benefitting from higher gains on US residential mortgage assets and sale of, and gains on, US commercial real estate assets. 2013 included a gain of £259m as a result of greater certainty regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition and current year reversal of £111m income relating to a litigation matter.

Net credit impairment charges of £220m (2012: £204m) were driven by a charge against a single name exposure in Q213.

2013

Total income decreased 9% to £10,733m, including a reduction of £309m relating to the Exit Quadrant.

Fixed Income, Currency and Commodities (FICC) income decreased 17% to £5,537m. Macro Products and Credit Products income decreased 23% to £3,110m and 9% to £2,427m respectively, driven by Rates and Securitised Products, as market uncertainty around central banks' tapering of quantitative easing programmes impacted activity. Europe and the US were particularly impacted, whilst Asia benefitting from improved currency income. The prior year benefitting from the European Long Term Refinancing Operation (LTRO) in H112, the ECB bond buying programme and reduced benchmark interest rates in H212.

Operating expenses increased 5% to £8,012m, driven by costs to achieve Transform of £262m primarily related to restructuring initiatives across Europe, Asia and America, and UK bank levy which increased 62% to £333m primarily due to an increase in the rate. Other costs included £325m (2012: £221m) relating to infrastructure improvement, including increased costs to meet the requirement of the Dodd-Frank Act, CRD IV and other regulatory reporting change projects. There were provisions for litigation and regulatory penalties of £220m in Q413, mainly relating to US residential mortgage-related business. 2012 was impacted by a £193m penalty relating to the setting of inter-bank offered rates.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	349	530	1,227
Net fee and commission income	3,236	3,029	2,805
Net trading income	6,610	7,688	5,322
Net investment income	530	521	868
Other income	8	7	—
Total income	10,733	11,775	10,222
Credit impairment charges and other provisions	(220)	(204)	(93)
Net operating income	10,513	11,571	10,129
Operating expenses (excluding UK bank levy and costs to achieve Transform)	(7,417)	(7,425)	(7,527)
UK bank levy	(333)	(206)	(199)
Costs to achieve Transform	(262)	—	—

Operating expenses	(8,012)		
Other net income	22	(7,631)	(7,726)
Profit before tax	2,523	3,990	2,415
Attributable profit ^a	1,548	2,680	1,636
Balance Sheet Information			
Loans and advances to banks and customers at amortised cost ^b	£143.8bn	£143.5bn	£159.1bn
Customer deposits ^b	£81.9bn	£75.9bn	£83.1bn
Total assets ^c	£863.8bn	£1,073.7bn	£1,158.7bn
Risk weighted assets – CRD III ^c	£142.6bn	£177.9bn	£186.6bn
Risk weighted assets – CRD IV fully loaded ^c	£221.6bn		

Notes

a Attributable profit represents profit after tax excluding non-controlling interests' share of those profits.

b As at 31 December 2013 loans and advances included £112bn of loans and advances to customers (including settlement balances of £35.4bn and cash collateral of £36bn) and loans £27bn relating to cash collateral.

c 2013 total assets and risk weighted assets reflect a reallocation of liquidity pool assets to other businesses.

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For more information on Investment Bank business model and strategy please see pages 34 to 37

Including costs to achieve Transform, the cost to income ratio increased 10% to 75%. The compensation to income ratio increased to 43.2% (2012: 39.6%), with compensation costs broadly in line with prior year at £4,634m (2012: £4,667m).

Profit before tax decreased 37% to £2,523m.

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

CRD III RWAs decreased 20% to £142.6bn primarily driven by a reduction of sovereign exposures in the trading book, risk reductions in the trading book and Exit Quadrant RWAs.

2012

Profit before tax increased 65% to £3,990m driven by strong income growth and reduced operating expenses.

Total income increased 15% to £11,775m.

FICC income improved 6% to £6,678m in an uncertain but more favourable trading environment. Increased liquidity and higher client volumes across a number of product areas resulted in increased contributions from the Rates, Emerging Markets, Commodities, Securitised Products and Credit businesses, partially offset by lower contributions from Currency driven by subdued volumes and lower volatility.

Equities and Prime Services income increased 21% to £2,183m, reflecting global market share gains which resulted in improved performance in cash equities and equity derivatives, despite subdued market volumes.

Investment Banking income increased 1% to £2,137m, reflecting global market share gains and increases in revenues across global financial advisory and underwriting businesses more than offsetting the impact of increased internal sales concessions. Debt underwriting activity and equity underwriting in the Americas grew particularly strongly and were primary contributors to the 8% increase in total net fees and commission income.

Credit impairment charges of £204m (2011: £93m) primarily related to higher losses on single name exposures. The prior year included a non recurring release of £223m.

Operating expenses decreased 1% to £7,631m despite absorbing a £193m charge relating to the setting of inter-bank offered rates.

The cost to income ratio was 65% (2011: 76%). The compensation to income ratio improved to 39.6% (2011: 48.4%).

Total assets decreased 7% to £1,073.7bn reflecting decreases in derivative assets, cash and balances at central banks, trading portfolio assets, and lending to banks and customers. This was partially offset by an increase in reverse repurchase agreements and an increase in settlement balances.

CRD III RWAs decreased 5% to £177.9bn, principally reflecting reductions in risk exposures, including legacy asset sell downs, and foreign exchange movements. This was partially offset by an increased operational risk charge and a more conservative approach to sovereign exposures.

	2013 £m	2012 £m	2011 £m
Analysis of total income			
Macro Products ^a	3,110	4,024	3,232
Credit Products ^a	2,427	2,654	3,058
Fixed Income, Currency and Commodities	5,537	6,678	6,290
Equities and Prime Services	2,672	2,183	1,807
Investment Banking	2,200	2,137	2,117
Principal Investments	62	206	232
Exit Quadrant Assets ^b	262	571	(224)
Total income	10,733	11,775	10,222

	Adjusted ^a			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity	8.5%	13.1%	8.0%	8.5%	13.1%	8.0%
Return on average equity	8.2%	12.7%	7.7%	8.2%	12.7%	7.7%
Return on average risk weighted assets	1.0%	1.6%	1.0%	1.0%	1.6%	1.0%
Cost: income ratio	75%	65%	76%	75%	65%	76%
Compensation: income ratio	43.2%	39.6%	48.4%	43.2%	39.6%	48.4%
Loan loss rate (bps)	14	13	8	14	13	8

Other measures			
Average DVaR (95%)	£29m	£38m	£57m
Number of employees (full time equivalent)	26,200	25,600	24,400

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- a Macro Products represent Rates, Currency and Commodities income. Credit Products represent Credit and Securitised Products income.
- b The Exit Quadrant consist of the Investment Bank Exit Quadrant business units as detailed on page 181, income regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition and relevant litigation items.
- c 2011 and 2012 FICC and Exit Quadrant amounts restated to appropriately reflect the Exit Quadrant portfolio.

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Analysis of results by business continued > Corporate Banking

£3,115m
total income

Up from £3,046m in 2012

£801m
adjusted profit before tax

Up from £460m in 2012

2013

Total income increased 2% to £3,115m reflecting an increase in UK income, partially offset by non-recurring income from a reduction in Exit Quadrant assets in Europe and previously exited businesses. Net interest margin remained broadly flat at 121bps (2012: 124bps) as reduced funding rates offset between assets and liabilities. Customer asset margin increased 16bps to 133bps and customer liability margin reduced 14bps to 97bps following the reduction in funding rates.

Credit impairment charges declined 42% to £510m largely driven by Europe, which saw charges reduce by £224m to £318m following

ongoing action to reduce exposure to the property and construction sector in Spain. Charges were also lower against large Corporate clients in the UK.

Adjusted operating expenses increased 6% to £1,806m including costs to achieve Transform of £114m, which primarily related to restructuring across all regions and the UK bank levy of £51m (2012: £39m). Statutory operating expenses improved 4% to £2,456m, due to a lower charge for interest rate hedging products redress of £650m (2012: £850m).

Adjusted profit before tax improved 74% to £801m. UK adjusted profit before tax improved 14% to £948m driven by lower credit impairment charges and higher income. Europe adjusted loss before tax improved 40% to £243m principally due to lower credit impairment charges, partially offset by reduced income from exited businesses and costs to achieve Transform. Rest of the World adjusted profit before tax improved £61m to £96m due to lower impairment and prior year costs reflecting the impact of exited businesses.

Statutory profit before tax was £151m (2012: loss of £390m) reflecting the reduced charge for interest rate hedging products redress. Adjusted attributable profit of £247m (2012: £228m) was impacted by a write down of deferred tax assets relating to Spain.

Loans and advances to customers decreased 5% to £61.1bn driven by the rundown of Exit Quadrant portfolios in Europe and a reduction in client demand as working capital deposits increased in the UK. Loans and advances to customers at fair value which consists of the Education, Social Housing and Local Authority (ESHLA) portfolio decreased 11% to £15.7bn from fair value adjustments reflecting rising long term interest rates and paydowns.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	1,987	1,911	2,298
Net fee and commission income	992	998	1,041
Net trading income/(expense)	97	87	(90)
Net investment income	12	23	29
Other income	27	27	37
Total income	3,115	3,046	3,315
Credit impairment charges and other provisions	(510)	(885)	(1,150)
Net operating income	2,605	2,161	2,165
Operating expenses (excluding UK bank levy, costs to achieve Transform, provision for interest rate hedging products redress and goodwill impairment)	(1,641)	(1,672)	(1,933)
UK bank levy	(51)	(39)	(43)
Costs to achieve Transform	(114)	—	—
Provision for interest rate hedging products redress	(650)	(850)	—
Goodwill impairment	—	—	(123)
Operating expenses	(2,456)	(2,561)	(2,099)
Other net income/(expense)	2	10	(71)
Profit/(loss) before tax	151	(390)	(5)
Adjusted profit before tax^a	801	460	191
Adjusted attributable profit ^{a,b}	247	228	32
Balance Sheet Information and Key Facts			
Loans and advances to customers at amortised cost	£ 61.1bn	£64.3bn	£68.3bn
Loans and advances to customers at fair value	£ 15.7bn	£17.6bn	£17.2bn

Customer deposits	£108.7bn	£99.6bn	£87.5bn
Total assets ^c	£113.9bn	£87.8bn	£92.9bn
Risk weighted assets – CRD III ^c	£ 68.9bn	£70.9bn	£75.4bn
Risk weighted assets – CRD IV fully loaded ^c	£ 70.5bn		
Number of employees (full time equivalents)	12,800	13,000	14,000

Notes

- a Adjusted profit before tax excludes the impact of the provision for interest rate hedging products redress of £650m (2012: £850m; 2011:£nil), goodwill impairment of £nil (2012: £nil, 2011: £123m) and loss on disposal of £nil (2012: £nil; 2011: £73m).
- b Adjusted attributable profit represents profit after tax excluding non-controlling interests' share of those profits.
- c 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on Corporate Banking business model and strategy please see pages 38 to 41

Customer deposits increased 9% to £108.7bn primarily due to the growth of UK deposits.

Total assets increased £26.1bn to £113.9bn reflecting a reallocation of liquidity pool assets previously held centrally.

CRD III RWAs decreased 3% to £68.9bn driven primarily by improvements in book quality and a reduction in Exit Quadrant RWAs, offset by the reallocation of liquidity pool assets previously held centrally.

2012

Total income decreased 8% to £3,046m driven by a net interest income decline of 17% to £1,911m, reflecting increased funding costs, non-recurring income from exited businesses and gains on the disposal of hedging instruments. Net interest margin down 28bps to 124bps principally due to higher funding costs and non-recurring gains from the sale of hedging instruments. Customer asset margin decreased 32bps to 117bps reflecting higher funding costs and reduced balances due to the refocusing of our international business. Customer liability margin increased 15bps to 111bps principally due to higher balances in the UK, driven by currency deposits and current accounts, and reflecting an increase in funding rates and therefore the value generated from customer liabilities.

Credit impairment charges reduced 23% to £885m. The loan loss rate improved to 127bps (2011: 153bps). Impairment charges in Europe reduced by £174m to £542m, primarily as a result of ongoing action to reduce exposure within the property and construction sector in Spain.

Adjusted operating expenses improved 13% to £1,711m, reflecting the benefits of prior year restructuring and cost control initiatives.

The adjusted cost to income ratio improved to 56% (2011: 60%).

Adjusted profit before tax improved £269m to £460m including a gain of £71m (2011: loss of £111m) in the net valuation of fair value items, primarily driven by reduced credit impairment charges in Europe and the UK and lower operating expenses. UK adjusted profit before tax improved 15% to £830m reflecting the £182m improvement in the net valuation of fair value items, improved operating expenses and reduced credit impairment charges. Europe loss before tax reduced £124m to £405m principally due to reduced credit impairment charges in Spain of £337m (2011: £480m) and improved operating expenses benefitting from progress in restructuring, partially offset by reduced income from exited businesses and non-core clients. Rest of the World adjusted profit before tax improved £34m to £35m reflecting lower operating expenses as a result of refocusing of the international business.

Statutory loss before tax was £390m (2011: £5m) including a £850m provision for interest rate hedging products redress in the UK. Rest of the World statutory profit before tax improved £107m to £35m reflecting the non-recurrence of a prior year loss on disposal of Barclays Bank Russia.

Total assets in the UK were up £0.2bn driven by solid growth in net UK lending. Total assets were down £5.1bn to £87.8bn as increases in the UK were more than offset by reductions in Europe and the Rest of the World due to the refocusing of the international business. Customer deposits increased 14% to £99.6bn with increased balances in the UK and Europe due to higher currency deposits and current accounts.

CRD III RWAs decreased 6% to £70.9bn, principally reflecting the benefit of the refocusing of our international business, partially offset by an increased operational risk charge.

	Adjusted ^a			Statutory		
	2013	2012	2011	2013	2012	2011
Performance Measures						
Return on average tangible equity	3.3%	3.1%	0.4%	(3.6%)	(5.7%)	(2.1%)
Return on average equity	3.1%	2.9%	0.4%	(3.5%)	(5.4%)	(2.0%)
Return on average risk weighted assets	0.5%	0.5%	0.2%	(0.2%)	(0.4%)	(0.1%)
Loan loss rate (bps)	77	127	153	77	127	153
Cost: income ratio	58%	56%	60%	79%	84%	63%

Income Statement Information

	2013				2012			
	UK £m	Europe £m	RoW £m	Total £m	UK £m	Europe £m	RoW £m	Total £m
Income	2,330	250	535	3,115	2,220	300	526	3,046
Credit impairment charges and other provisions	(174)	(318)	(18)	(510)	(284)	(542)	(59)	(885)
Operating expenses (excluding UK bank levy, costs to								

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achieve Transform and provision for interest rate hedging products redress)	(1,114)	(146)	(381)	(1,641)	(1,082)	(156)	(434)	(1,672)
UK bank levy	(39)	(6)	(6)	(51)	(26)	(7)	(6)	(39)
Costs to achieve Transform	(56)	(23)	(35)	(114)				
Provision for interest rate hedging redress	(650)	—	—	(650)	(850)	—	—	(850)
Other net income	1	—	1	2	2	—	8	10
Profit/(loss) before tax	298	(243)	96	151	(20)	(405)	35	(390)
Adjusted profit/(loss) before tax^a	948	(243)	96	801	830	(405)	35	460

Note

a Adjusted profit/(loss) before tax and adjusted performance measures exclude the impact of the provision for interest rate hedging products redress of £650m (2012: £850m; 2011: £nil), goodwill impairment of £nil (2012: £nil; 2011: £123m) and loss on disposal of £nil (2012: £nil, 2011: £73m).

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Wealth and Investment Management

£1,839m
total income

Down from £1,820m in 2012

£19m
adjusted loss before tax

From a profit of £274m in 2012

2013

Total income of £1,839m remained broadly in line with the prior year.

Net interest income of £859m was also in line with the prior year, as growth in deposit and lending balances, primarily in the High Net Worth business, was offset by a 19bps decrease in net interest margin to 104bps reflecting a change in product mix and reduced contributions from structural hedges. Customer asset margin increased 21bps to 86bps due to lower funding rates. Average customer assets increased 14% to £22.4bn. Customer liability margin decreased 15bps

to 97bps reflecting a change in product mix and lower funding rates. Average customer liabilities increased 21% to £60.6bn.

Net fees and commission income increased 2% to £968m.

Credit impairment charges increased £83m to £121m, largely reflecting the impact of deterioration in recovery values from property held as security, primarily in Europe. H113 included a charge of £15m relating to secured lending on Spanish property.

Adjusted operating expenses increased £241m to £1,750m largely reflecting costs to achieve Transform of £158m and a £23m customer remediation provision. Statutory operating expenses increased £320m to £1,829m including goodwill impairment of £79m (2012: £nil). For further details refer to Note 25 Goodwill and intangible assets on pages 328 and 329.

Adjusted loss before tax of £19m moved from a profit of £274m in 2012 primarily driven by costs to achieve Transform, increased credit impairment charges and the customer remediation provision. An adjusting item of £79m relating to the impairment of goodwill was also included in the statutory loss before tax of £98m (2012: profit of £274m).

Loans and advances to customers increased 8% to £23.1bn and customer deposits increased 18% to £63.4bn primarily driven by growth in the High Net Worth business.

CRD III RWAs increased 4% to £16.7bn driven by reallocation of liquidity pool assets previously held centrally, offset by improvements to the application of collateral to credit exposures.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Net interest income	859	856	823
Net fee and commission income	968	948	944
Net trading income	18	16	5
Other expense	(6)	—	(2)
Total income	1,839	1,820	1,770
Credit impairment charges and other provisions	(121)	(38)	(41)
Net operating income	1,718	1,782	1,729
Operating expenses (excluding UK bank levy, costs to achieve Transform and goodwill impairment)	(1,586)	(1,505)	(1,537)
UK bank levy	(6)	(4)	(1)
Costs to achieve Transform	(158)	—	—
Goodwill impairment	(79)	—	—
Operating expenses	(1,829)	(1,509)	(1,538)
Other net income/(expense)	13	1	(3)
(Loss)/profit before tax	(98)	274	188
Adjusted (loss)/profit before tax ^a	(19)	274	188
Adjusted attributable (loss)/profit ^{a,b}	(24)	222	166
Balance Sheet Information			
Loans and advances to customers at amortised cost	£23.1bn	£21.3bn	£18.8bn
Customer deposits	£63.4bn	£53.8bn	£46.5bn
Total assets ^c	£37.6bn	£24.5bn	£20.8bn

Risk weighted assets – CRD III ^c	£16.7bn	£16.1bn	£13.1bn
Risk weighted assets – CRD IV fully loaded ^c	£17.3bn		

Notes

a Adjusted profit before tax excludes the impact of goodwill impairment of £79m (2012: £nil; 2011: £nil).

b Adjusted attributable profit represents profit after tax excluding non-controlling interests' share of those profits.

c 2013 total assets and risk weighted assets include an allocation of liquidity pool assets previously held centrally.

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For more information on Wealth and Investment Management business model and strategy please see pages 42 to 45

Client assets increased 10% to £204.8bn driven by growth in the High Net Worth business and favourable equity market movements.

2012

Income improved 3% to £1,820m primarily driven by an increase in the High Net Worth business.

Net interest income grew 4% to £856m reflecting growth in deposit and lending balances in the High Net Worth business. Net interest margin decreased 10bps to 123bps due to the ongoing low interest rate environment and reduced contribution from structural hedges.

Net fees and commissions income remained broadly in line at £948m (2011: £944m) despite challenging market conditions.

Operating expenses decreased 2% to £1,509m as cost control initiatives were partially offset by the continued cost of the strategic investment programme.

Profit before tax increased 46% to £274m.

Customer deposits increased 16% to £53.8bn and loans and advances to customers increased 13% to £21.3bn.

CRD III RWAs increased 23% to £16.1bn principally due to growth in lending and an increased operational risk charge.

Client assets increased 13% to £186.0bn (2011: £164.2bn) principally reflecting an increase in net new assets in the High Net Worth business.

	Adjusted			Statutory		
	2013	2012	2011 ^a	2013	2012	2011
Performance Measures						
Return on average tangible equity	(1.4%)	15.5%	13.0%	(5.9%)	15.5%	13.0%
Return on average equity	(1.0%)	11.2%	9.5%	(4.5%)	11.2%	9.5%
Return on average risk weighted assets	(0.1%)	1.7%	1.4%	(0.5%)	1.7%	1.4%
Cost: income ratio	95.0%	83%	87%	99.0%	83%	87%
Loan loss rate (bps)	51	17	21	51	17	21
Other financial measures						
Client assets				£204.8bn	£186.0bn	£164.2bn
Number of employees (full time equivalents)				8,300	8,300	8,500

Note

a Adjusted performance measures exclude the impact of goodwill impairment of £79m (2012: £nil; 2011: £nil).

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2013

Adjusted income declined to a net expense of £124m (2012: income of £356m), predominately due to the non-recurrence of gains related to hedges of employee share awards in Q112 of £235m and the residual net expense from treasury operations, including an adjustment to the carrying amount of subordinated liabilities.

Operating expenses decreased £53m to £131m, mainly due to the non-recurrence of the £97m penalty arising from the industry wide investigation into the setting of inter-bank offered rates recognised in H112, partially offset by costs to achieve Transform of £22m and regulatory investigation and legal costs.

Adjusted loss before tax of £248m moved from a profit of £189m in 2012. Statutory loss before tax improved to £468m (2012: £4,163m) including an own credit charge of £220m (2012: £4,579m), partially offset by the non-recurrence of the £227m gain on disposal of investment in BlackRock Inc. in 2012.

Total assets decreased 35% to £26.7bn primarily reflecting a reduction of group liquidity pool assets and a reallocation to the businesses.

CRD III RWAs decreased £2.3bn to £3.0bn primarily driven by reallocation of liquidity pool assets to the businesses.

2012

Adjusted income increased to £356m (2011: expense of £89m) principally due to changes in the value of hedges relating to employee share awards which were closed out during Q112.

Operating expenses increased £139m to £184m mainly from higher regulatory costs, including a charge relating to the allocation to Head Office and Other Operations of the penalty of £97m (2011: £nil) arising from the industry wide investigation into the setting of interbank offered rates, Financial Services Compensation Scheme of £135m (2011: £45m), UK bank levy to £19m (2011: £nil) and increased strategic initiative costs.

Adjusted profit before tax increased to £189m (2011 loss of £135m). Statutory loss before tax increased to £4,163m (2011: profit of £1,822m) including an own credit charge of £4,579m (2011: £2,708m gain) and non-recurrence of gains on debt buy-backs, partially offset by the impact of the BlackRock Inc. investment disposal and income from changes in the value of hedges relating to employee share awards that were closed out during in Q112.

Total assets increased to £41.3bn (2011: £31.7bn) reflecting growth in the liquidity bond portfolio held at Head Office, partially offset by the sale of the strategic investment in BlackRock Inc.

CRD III RWAs increased £2.8bn to £5.3bn, principally reflecting increases in sovereign bonds held for liquidity purposes and the application of a more conservative approach to risk weighting these exposures.

	2013 £m	2012 £m	2011 £m
Income Statement Information			
Adjusted total expense net of insurance claims	(124)	356	(89)
Own credit (charge)/gain	(220)	(4,579)	2,708
Gains on debt buy-backs	–	–	1,130
Gain/(loss) on disposal of investment in BlackRock, Inc	–	227	(58)
Total income net of insurance claims	(344)	(3,996)	3,691
Credit impairment (charge)/release and other provisions	2	(6)	(1)
Impairment of investment in BlackRock Inc.	–	–	(1,800)
Net operating (loss)/income	(342)	(4,002)	1,890
Operating expenses (excluding UK bank levy and cost to achieve Transform)	(94)	(165)	(45)
UK bank levy	(15)	(19)	–
Cost to achieve Transform	(22)	–	–
Operating expenses	(131)	(184)	(45)
Other net income/(expense)	5	23	(23)
(Loss)/profit before tax	(468)	(4,163)	1,822
Adjusted (loss)/profit before tax^a	(248)	189	(135)
Adjusted attributable loss ^{a,b}	(344)	(64)	(165)
Balance Sheet Information			
Total assets ^c	£26.7bn	£41.3bn	£31.7bn
Risk weighted assets – CRD III ^c	£ 3.0bn	£ 5.3bn	£ 2.5bn
Risk weighted assets – CRD IV fully loaded ^c	£ 2.5bn		
Number of employees (full time equivalent)	100	200	100

Notes

a Adjusted (loss)/profit before tax excludes the impact of an own credit charge of £220m (2012: charge of £4,579m, 2011: gain of £2,708m), gains on debt buy-backs (retirement of non-qualifying Tier 1 Capital under Basel 3) of £nil (2012: £nil, 2011: £1,130m), gain/(loss) on disposal of the strategic investment

in BlackRock Inc. of £nil (2012: gain of £227m, 2011: loss of £58m), impairment of investment in BlackRock Inc. of £nil (2012: £nil, 2011: £1,800m) and loss on disposals of £nil (2012: £nil; 2011: £23m).

b Adjusted attributable profit represents profit after tax excluding non-controlling interests' share of those profits.

c 2013 total assets and risk weighted assets reflect a reduction in the liquidity pool and a reallocation to businesses of liquidity pool assets previously held centrally.

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Margins and balances

Margins Analysis

Basis of preparation

Customer assets represents loans and advances to customers and net interest income on customer assets represents interest received from customers less interest expense for funding those assets at the relevant internal funding rate. Customer liabilities represent customer deposits. Net interest income on customer liabilities represents the interest income from the funds generated from customer liabilities at the internal rate of funding less the interest paid to customers. Customer net interest income is the sum of customer asset and customer liability net interest income. Under this approach, customer net interest income reflects interest related to customer assets and liabilities only and does not include any interest on securities or other non-customer assets and liabilities.

Non-customer interest income principally reflects the impact of product and equity structural hedges, as well as certain other net interest income received on government bonds and other debt securities held for the purposes of interest rate hedging and liquidity for local banking activities. All reverse repurchase and repurchase agreements and related interest are recorded in the Investment Bank and are therefore not included in the Retail and Business Banking, Corporate Banking and Wealth and Investment Management customer margins data.

The customer asset margin is defined as net interest income earned on customer assets (excluding the impact of the product structural hedge relating to those assets), divided by total average customer assets. Similarly, the customer liability margin is net interest income earned on customer liabilities (excluding the impact of the product structural hedge relating to those liabilities), divided by total average customer liabilities.

The customer net interest margin is calculated as net interest income on both customer assets and liabilities (excluding the impact of product structural hedges) as a percentage of the sum of average customer assets and liabilities, consistent with the presentation of the net interest margin.

The non-customer generated margin is calculated as non-customer net interest income (principally comprising the impact of both the product and equity structural hedges) as a percentage of the sum of average customer assets and liabilities, consistent with the presentation of the net interest margin.

Analysis of net interest income		
	2013 £m	2012 £m
Retail, Corporate Banking and Wealth and Investment Management customer income		
– Customer assets	7,144	6,654
– Customer liabilities	3,221	3,185
Total	10,365	9,839
Retail, Corporate Banking and Wealth and Investment Management non-customer income		
– Product structural hedge ^a	843	962
– Equity structural hedge ^b	337	317
– Other	(129)	(69)
Retail, Corporate Banking and Wealth and Investment Management net interest income	11,416	11,049
Investment Bank	349	530
Head Office and Other Operations	(165)	75
Group net interest income	11,600	11,654

Retail and Business Banking, Corporate Banking and Wealth and Investment Management net interest income

Barclays distinguishes the relative net interest contribution from customer assets and customer liabilities, and separates this from the contribution delivered by non-customer income, which principally arises from the Group hedging activities.

Customer net interest income

Customer net interest income increased to £10,365m (2012: £9,839m) driven by growth of 2% in average customer assets to £326bn and a 10bps increase in the customer asset margin to 2.19%. Customer liability interest income remained broadly constant; the result of a 14% increase in average liabilities to £322bn offset by a 12bps reduction to 100bps in the customer liability margin.

The customer asset margin increased to 2.19% (2012: 2.09%) primarily due to reduced funding costs.

The customer liability margin decreased to 1.00% (2012: 1.12%) driven by increased customer rates paid on deposits accounts in Corporate Banking, a change in product mix within Wealth towards lower margin products and reduced funding rates.

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aProduct structural hedges convert short term interest margin volatility on product balances (such as non-interest bearing current accounts and managed rate deposits) into a more stable medium term rate and are built on a monthly basis to achieve a targeted maturity profile.

bEquity structural hedges are in place to manage the volatility in net earnings generated by businesses on the Group's equity, with the impact allocated to businesses in line with their economic capital usage.

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Margins and balances continued

Non-customer net interest income

Non-customer net interest income decreased to £1,051m (2012: £1,210m) reflecting a reduction in the non-customer generated margin of 5bps to 0.16%. Group hedging activities continue to utilise structural interest rate hedges to mitigate the impact of the low interest environment on customer liabilities and the Group's equity.

Product structural hedges generated a lower contribution of £843m (2012: £962m), as hedges were maintained in this period of continued low interest rates. Based on the current interest rate curves and the ongoing hedging strategy, fixed rate returns on product structural hedges are expected to make a significant contribution in 2014.

The contribution from equity structural hedges RBB, Barclaycard, Corporate Banking and Wealth and Investment Management remained broadly constant at £337m (2012: £317m).

Other Group net interest income

Head office net interest income decreased £240m to a net expense of £165m reflecting the cost of funding surplus liquidity due to growth in customer deposits across the Group offset by an adjustment to the carrying value of subordinated liabilities.

Investment Bank net interest decreased to £349m (2012: £530m) primarily due to a reduction in interest income from Exit Quadrant assets.

Total contribution to Group net interest income from structural hedge income is down £140m to £1.6bn (2012: £1.7bn).

Net interest margin

The net interest margin for RBB, Corporate Banking and Wealth and Investment Management decreased 8bps to 1.76% (2012: 1.84%), reflecting the reduction in contribution from customer liabilities and Group hedging activities, combined with a reduced contribution from the higher margins in Africa RBB as the ZAR depreciated against GBP. The net interest margin is expressed as a percentage of the sum of average customer assets and liabilities, to reflect the impact of the margin generated on retail and commercial banking liabilities.

The net interest margin, expressed as a percentage of average customer assets increased from 3.47% to 3.50% in 2013.

Net interest margin and customer asset and liability margins reflect movements in the Group's internal funding rates which are based on the cost to the Group of alternative funding in wholesale markets. The Group's internal funding rate prices intra-group funding and liquidity to appropriately give credit to businesses with net surplus liquidity and charges those businesses in need of wholesale funding at a rate that is driven by prevailing market rates and includes a term premium. The objective is to price internal funding for assets and liabilities in line with the cost of alternative funding, which ensures there is a consistency between retail and wholesale source.

An analysis is provided on the following page for Retail and Business Banking, Corporate Banking and Wealth and Investment Management for each of the component parts of net interest income.

	UK RBB %	Europe RBB %	Africa RBB %	Barclaycard %	Corporate Banking %	Wealth and Investment Management %	Total %
2013							
Customer asset margin	1.22	0.43	3.10	9.39	1.33	0.86	2.19
Customer liability margin	0.89	0.40	2.73	(0.29)	0.97	0.97	1.00
Customer net interest margin	1.06	0.43	2.95	8.48	1.12	0.94	1.60
Non-customer generated margin	0.23	0.36	0.21	(0.19)	0.09	0.10	0.16
Net interest margin	1.29	0.79	3.16	8.29	1.21	1.04	1.76
Average customer assets (£m)	134,297	39,387	27,330	36,276	66,724	22,418	326,432
Average customer liabilities (£m)	128,310	13,887	18,093	3,741	97,558	60,596	322,185
2012							
Customer asset margin	1.07	0.46	3.10	9.56	1.17	0.65	2.09
Customer liability margin	0.97	0.38	2.75	(0.60)	1.11	1.12	1.12
Customer net interest margin	1.02	0.44	2.97	9.18	1.14	0.99	1.63
Non-customer generated margin	0.33	0.34	0.22	(0.52)	0.10	0.24	0.21
Net interest margin	1.35	0.78	3.19	8.66	1.24	1.23	1.84
Average customer assets (£m)	124,275	39,996	32,155	33,470	69,041	19,670	318,607

Average customer liabilities (£m)	111,753	14,824	19,610	1,286	85,620	50,083	283,176
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Presentation of information

Barclays approach to disclosures

The Group aims to continually enhance its disclosures and their usefulness to the readers of the financial statements in light of developing market practice and areas of focus. Consequently Barclays disclosures go beyond the minimum standards required by accounting standards and other regulatory requirements.

During 2012, Barclays welcomed the recommendations made by the Enhanced Disclosure Taskforce (EDTF) and adopted the majority of the recommendations.

The EDTF was formed by the Financial Stability Board with a remit to broaden and deepen the risk disclosures of global banks in a number of areas, including liquidity and funding, credit risk and market risk.

For 2013 Barclays has sought to further enhance disclosures in order to meet the recommendations. In particular additional disclosures on the following have been made:

- Enhanced the encumbrance disclosure to improve reconciliation to the balance sheet and give increased information on unencumbered assets that cannot be pledged as collateral;
- Provided more granular information on RWAs;
- Increased information on impaired loans;
- Provided further information on our high risk wholesale and retail portfolios; and
- Expanded the market risk section providing better linkages between the balance sheet and value at risk (VaR).

In addition, the audit of the Barclays Africa Group Limited Group (which includes the Absa Retail and Business Banking component and certain other business activities) was concluded prior to our audit of the financial statements.

It is Barclays' view that best in class disclosures will continue to evolve in light of ongoing market and stakeholder engagement with the banking sector. Barclays is committed to engaging and responding to this feedback in order to meet the information needs of stakeholders.

British Bankers' Association (BBA) Code for Financial Reporting Disclosure

Barclays has adopted the BBA Code for Financial Reporting Disclosure and has prepared the 2013 Annual Report and Accounts in compliance with the Code. The BBA published a Code for Financial Reporting Disclosure (the Code). The Code sets out five disclosure principles together with supporting guidance. The principles are that UK banks will:

- provide high quality, meaningful and decision-useful disclosures;
- review and enhance their financial instrument disclosures for key areas of interest;
- assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance;
- seek to enhance the comparability of financial statement

Statutory Accounts

The consolidated accounts of Barclays PLC and its subsidiaries are set out on pages 277 to 281 along with the accounts of Barclays PLC itself on pages 282 and 283. The accounting policies on pages 284 to 287 and the notes commencing on page 284 apply equally to both sets of accounts unless otherwise stated.

The comparatives in the financial statements and notes to the financial statements have been restated to reflect the implementation of IFRS 10 Consolidated Financial Statements and IAS 19 Employee Benefits (Revised 2011). For additional information refer to Note 46.

Capital Requirements Country-by-Country Reporting

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation will require Barclays PLC to publish additional information in respect of the year ended 31 December 2013, by 1 July 2014. This information will be available before this date on Barclays' website, Barclays.com.

disclosures across the uk banking sector; and

- clearly differentiate in their annual reports between information that is audited and information that is unaudited.

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Independent Auditors' report

Independent Auditors' Report to the members of Barclays PLC

Report on the financial statements

Our opinion

In our opinion, the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's and Parent Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Parent Company financial statements (the financial statements) for the year ended 31 December 2013, which are prepared by Barclays PLC, comprise:

- the Consolidated and Parent balance sheets as at 31 December 2013;
- the Consolidated and Parent income statements and related Consolidated statement of comprehensive income for the year then ended;
- the Consolidated and Parent statements of changes in equity and statements of cash flows for the year then ended; and
- the related notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented in the Risk review and Financial review sections of the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements both individually and on the financial statements as a whole.

Based on our professional judgment, we determined overall materiality for the Group financial statements as a whole to be £310m. Overall materiality was determined through taking 5% of profit before taxation adjusted for own credit, the provision for payment protection insurance redress payments and claims management costs, the provision for interest rate hedging products redress and claims management costs, goodwill impairment and costs to achieve Transform. The removal of these items mitigates undue volatility in determining our materiality.

Although our audit was designed to identify material misstatements, we agreed with the Board Audit Committee that we would report to them uncorrected misstatements greater than £15m, as well as misstatements below that threshold that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

When determining the scope of our audit we considered the internal organisation of the Group and we sought to determine a scope of audit work that optimised the coverage of risks, balances and transactions.

The Group has eight operating segments: UK Retail and Business Banking, Europe Retail and Business Banking, Africa Retail and Business Banking, Barclaycard, Investment Bank, Corporate Banking, Wealth and Investment Management and Head Office and Other Operations.

For the purposes of planning our audit, we identified eight separate components in the Group, being entities and business activities for which the Group prepares financial information. This component analysis was broadly consistent with the Group's operating segments; except that we identified Barclaycard UK (which is part of the Barclaycard segment) and Absa Retail and Business Banking (which is part of the Africa Retail and Business Banking segment) as separate components. Therefore the components for the purposes of our audit were UK Retail and Business Banking, Europe Retail and Business Banking, Absa Retail and Business Banking, Barclaycard UK, Investment Bank, Corporate Banking, Wealth and Investment Management and Head Office & Other Functions (the components).

In establishing our overall approach to audit the Group, we considered the significance of these components to the financial statements. We also separately considered our assessment of risk within each component, the overall coverage of our procedures across the Group, as well as the risk associated with less significant components not brought into the normal scope of our audit.

We determined the type of work that needed to be performed for each component by us in relation to components within the UK, or by other PwC network firms operating under our instruction in relation to components outside the UK. Where the work was performed by other

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- made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

firms, we determined the level of involvement we needed to have in the audit work of those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Of the eight components, we performed an audit of the complete financial information of the Investment Bank, Barclaycard UK and Absa Retail and Business Banking either because that was required due to their size and their risk characteristics or due to the alignment of local reporting timetables with that of the Group. We also carried out specific audit procedures on certain financial statement line items in each of the remaining five components. In addition, the audit of the Barclays Africa Group Limited Group (which includes the ABSA Retail and Business Banking component and certain other business activities) was concluded prior to our audit of the financial statements.

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Independent Auditors' report continued

In aggregate these components, financial statement line items and the Barclays Africa Group Limited Group accounted for 83% of total income and 91% of total assets.

In addition, we carried out other more limited audit procedures in respect of those business activities of the Group which were not included in the eight components which we had identified.

This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

[Areas of particular audit focus](#)

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved them making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We consider the following areas of particular audit focus to be those areas that had the greatest effect on our overall audit strategy, the allocation of resources in our audit and directing the efforts of the audit team in the current year. This is not however a complete list of all the risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Board Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 63 and 64.

[Areas of particular audit focus](#)

Area of focus	How the scope of our audit addressed the area of focus
<i>Valuation of complex or illiquid trading portfolio assets and liabilities, financial assets and liabilities and derivative financial instruments held at fair value</i> We focused on this area because for some of these assets and liabilities the external evidence supporting the Group's valuations is limited because of the lack of a liquid market and the directors' judgement was required. In particular we focussed on: - the basis of valuation of the Education, Social Housing and Local Authority (ESHLA) loan portfolio which is held at fair value; and - the derivative valuation adjustments made by management including those made to reflect the costs of funding of uncollateralised derivatives and counterparty credit risk. See Notes 14 to 18 to the financial statements on page 298 to 322.	We assessed and tested the design and operating effectiveness of the controls over valuations and model approval. In those cases where the external information supporting the Group's valuations was limited and the directors' judgement was required, we examined the Group's internal price verification processes which test those judgemental valuations against other information which, while not directly comparable, may be indicative of the appropriate valuation. Where the Group used external pricing sources we examined the processes and controls operated by those sources. We also made our own examination of collateral disputes, market auctions and gains and losses on disposals and other events which could provide evidence about the appropriateness of the Group's valuations. In some cases we evaluated the Group's valuation models or made our own valuations of some of the financial instruments and compared our valuations to those of the Group. In relation to the particular areas of focus set out opposite; - we assessed the methodology used to value the ESHLA portfolio and we examined potentially comparable transactions to determine the extent to which the inputs to the valuation methodology were observable; - we assessed the methodology for the derivative valuation adjustments and compared it with our knowledge of current and emerging practice; and - we examined relevant transactions to corroborate the methodology for the derivative valuation adjustments and the assumptions made.

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Areas of particular audit focus

Area of focus	How the scope of our audit addressed the area of focus	
<i>Impairment of the carrying value of loans and advances to banks and to customers held at amortised cost</i>	We focused on this area because the directors make complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. In the Corporate Banking and Investment Bank components the material portion of impairment is individually calculated. In the UK, Europe and Absa Retail and Business Bank and the Barclaycard UK components the material portion of the impairment is calculated on a modelled basis for portfolios of loans and advances. In particular we focussed on: - the principal assumptions underlying the calculation of impairment for portfolios of loans and advances, the operation of the models to make those calculations and the application of adjustments to the results produced by those models; and - how impairment events that have not yet resulted in a payment default are identified and measured, including the granting of forbearance. See Notes 7 and 20 to the financial statements on pages 291 and 324 respectively and the relevant parts of the Risk review to which they are cross-referred.	
<i>Provisions for the cost of conduct remediation</i>	We assessed and tested the design and operating effectiveness of the controls over impairment calculations. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the impairment event had been identified in a timely manner, including how forbearance had been considered. For identified impairments, we examined the future cash flow forecasts prepared by management, challenging the assumptions made, and comparing the estimates to external evidence where available. Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data used. In relation to the particular areas of focus set out opposite: - we compared the principal assumptions made with our own knowledge of other practices and actual experience; - we tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models independently and comparing the results; - we examined the basis for the further adjustments made to the results produced by those models; and - we tested the operation of the Group's controls to identify any potential additional impairment due to events that have not yet resulted in a payment default, including the granting of forbearance, and we specifically examined the individual judgements made for a sample of loans and advances.	
<i>Litigation and regulatory claims</i>	We focused on this area because the directors have made provisions that require significant judgement in relation to the amount of current and potential future claims from customers for losses or damages associated with inappropriate judgements in the execution of the Group's business activities. In particular, we focussed on the provisions in relation to Payment Protection Insurance redress (PPI) and Interest Rate Hedging Product redress (IRHP). See Note 28 to the financial statements on pages 332 and 333.	
<i>Litigation and regulatory claims</i>	We assessed and tested the design and operating effectiveness of the directors' controls over the calculation of the provisions for the cost of conduct remediation. In relation to the particular areas of focus set out opposite we examined the history of claim volumes and settlement amounts for PPI and IRHP and assessed whether the assumptions underpinning the provision calculations, including future claims volumes and settlement amounts, were appropriate. This assessment considered the latest information available including regulatory inspections and communications and our knowledge of other such redress settlements.	
<i>Litigation and regulatory claims</i>	We focussed on this area because the Group is subject to challenge in respect of many legal, regulatory and competition matters, many of which are beyond their control. Consequently, the directors make judgements about the incidence and quantum of such liabilities arising from litigation and regulatory or competition claims which are subject to the future outcome of legal or regulatory processes. See Note 30 to the financial statements on pages 334 to 340.	
	We assessed and tested the design and operating effectiveness of the controls over the identification and reporting of legal regulatory or competition matters. We considered the Group's assessment of the nature and status of litigation, claims and assessments and discussed them with senior Group management including in-house counsel. We examined the Group's conclusions with respect to the provisions and disclosures made for significant cases, both considering the correspondence between the Group	

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and its external legal counsel and independently communicating with certain of those external legal counsel.

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Independent Auditors' report continued

Areas of particular audit focus

Area of focus	How the scope of our audit addressed the area of focus	
<i>Provision for uncertain tax positions</i>	We focussed on this area because the Group is subject to taxation in many jurisdictions and, in many cases, the ultimate tax treatment is uncertain and is not determined until resolved with the relevant tax authority. Consequently, the directors make judgements about the incidence and quantum of tax liabilities which are subject to the future outcome of assessments by the relevant tax authorities and potentially associated legal processes. See Note 10 to the financial statements on pages 294 and 297.	We examined the correspondence between the Group and both the relevant tax authorities and the Group's external advisers. We examined the matters in dispute and used our knowledge of the law of the relevant tax jurisdictions and other similar taxation matters to assess the available evidence and consider whether the provisions are appropriate.
<i>IT systems and controls</i>	We focussed on this area because the Group's financial accounting systems are heavily dependent on complex IT systems which are the subject of continuing development and improvement.	We assessed and tested the design and operating effectiveness of the directors' controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the governance framework for the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access and segregation of duties.
<i>Risk of fraud in revenue recognition</i>	We focussed on this area because ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition as a result of the potential for management bias in order to achieve planned results.	We assessed and tested the design and operating effectiveness of the controls over the occurrence, accuracy and timing of revenue recognised in the financial statements. We also focused on the instances of material judgement by the directors and by management and on those parts of the accounting processes which require manual intervention. We incorporated unpredictability into our testing.
<i>Risk of management override of internal controls</i>	We focussed on this area because ISAs (UK & Ireland) require that we consider the risk of management override of internal controls.	We tested key reconciliations and manual journal entries incorporating unpredictability into our approach. We considered whether there was evidence of bias by the directors or by management in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function.

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Going Concern

Under the Listing Rules we are required to review the directors' statement in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. In drawing this conclusion, the directors have considered the regulatory capital position of the Group as well as the funding and liquidity position of the Group.

As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code (the Code). We have nothing to report having performed our review.

On page 82 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 63 and 64, as required by C.3.8 of the Code, the Board Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Board Audit Committee does not appropriately address matters communicated by us to the Board Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 82, the directors are responsible for the preparation of the Group and Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Ratcliffe (Senior Statutory Auditor)
for and on behalf of

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
3 March 2014

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Independent Registered Public Accounting Firm's report

Report of Independent Registered Public Accounting Firm To the Board of Directors and Shareholders of Barclays PLC

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated statements of comprehensive income and consolidated statements of changes in equity, and consolidated cash flow statements present fairly, in all material respects, the financial position of Barclays PLC and its subsidiaries at 31 December 2013 and 1 January 2013, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 December 2013, based on criteria established in Internal Control – Integrated Framework 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's report on internal control over financial reporting in the Directors' Report appearing on page 81 of the Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal

control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 1 and 46, in 2013 the Company changed the manner in which it assesses consolidation, due to the implementation of IFRS 10: Consolidated Financial Statements; and the manner in which it accounts for its employee benefits due to the implementation of IAS 19 (revised): Employee Benefits, which resulted in the inclusion of the January 1, 2012 balance sheet.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London, United Kingdom
3 March 2014

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Consolidated income statement

For the year ended 31 December	Notes	2013 £m	2012 £m	2011 £m
Continuing operations				
Interest income	3	18,315	19,211	20,589
Interest expense	3	(6,715)	(7,557)	(8,388)
Net interest income		11,600	11,654	12,201
Fee and commission income	4	10,479	10,213	10,208
Fee and commission expense	4	(1,748)	(1,677)	(1,586)
Net fee and commission income		8,731	8,536	8,622
Net trading income	5	6,553	3,347	7,660
Net investment income	6	680	844	2,305
Net premiums from insurance contracts		732	896	1,076
Gains on debt buy-backs and extinguishments		—	—	1,130
Other income		148	332	39
Total income		28,444	25,609	33,033
Net claims and benefits incurred on insurance contracts		(509)	(600)	(741)
Total income net of insurance claims		27,935	25,009	32,292
Credit impairment charges and other provisions	7	(3,071)	(3,340)	(5,602)
Net operating income		24,864	21,669	26,690
Staff costs	35	(12,155)	(11,467)	(12,353)
Administration and general expenses	8	(6,611)	(5,991)	(5,844)
Depreciation of property, plant and equipment	24	(647)	(669)	(673)
Amortisation of intangible assets	25	(480)	(435)	(419)
Goodwill impairment	25	(79)	—	(597)
Provision for PPI redress	28	(1,350)	(1,600)	(1,000)
Provision for interest rate hedging products redress	28	(650)	(850)	—
Operating expenses		(21,972)	(21,012)	(20,886)
Share of post-tax results of associates and joint ventures		(56)	110	60
Profit/(loss) on disposal of subsidiaries, associates and joint ventures	9	6	28	(94)
Gain on acquisitions		26	2	—
Profit before tax		2,868	797	5,770
Taxation	10	(1,571)	(616)	(1,902)
Profit after tax		1,297	181	3,868
Attributable to:				
Equity holders of the parent		540	(624)	2,924
Non-controlling interests	34	757	805	944
Profit after tax		1,297	181	3,868
		p	p	p
Earnings per share				
Basic earnings/(loss) per share	11	3.8	(4.8)	22.9
Diluted earnings/(loss) per share	11	3.7	(4.8)	21.9

The Board of Directors approved the financial statements out on pages 277 to 376 on 3 March 2014.

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Consolidated statement of comprehensive income

For the year ended 31 December	2013 £m	2012 £m	2011 £m
Profit after tax	1,297	181	3,868
Other comprehensive (loss)/income from continuing operations:			
Currency translation reserve			
Currency translation differences	(1,767)	(1,548)	(1,607)
Available for sale reserve			
Net(losses)/gains from changes in fair value	(2,734)	1,237	2,742
Net gains transferred to net profit on disposal	(145)	(703)	(1,614)
Net (gains)/losses transferred to net profit due to impairment	(7)	40	1,860
Net losses/(gains) transferred to net profit due to fair value hedging	2,376	474	(1,803)
Changes in insurance liabilities	28	(150)	18
Tax	100	(352)	171
Cash flow hedging reserve			
Net (losses)/gains from changes in fair value	(1,914)	1,499	2,407
Net gains transferred to net profit	(547)	(695)	(753)
Tax	571	(142)	(391)
Other	(37)	96	(74)
Total comprehensive (loss)/income that may be recycled to profit or loss	(4,076)	(244)	956
Other comprehensive (loss)/income not recycled to profit or loss:			
Retirement benefit remeasurements	(512)	(1,553)	1,033
Deferred tax	(3)	318	(202)
Other comprehensive (loss)/income for the period	(4,591)	(1,479)	1,787
Total comprehensive (loss)/income for the year	(3,294)	(1,298)	5,655
Attributable to:			
Equity holders of the parent	(3,406)	(1,894)	5,324
Non-controlling interests	112	596	331
	(3,294)	(1,298)	5,655

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Consolidated balance sheet

As at	Notes	31 December 2013 £m	31 December 2012 £m	1 January 2012 £m
Assets				
Cash and balances at central banks		45,687	86,191	106,990
Items in the course of collection from other banks		1,282	1,473	1,812
Trading portfolio assets	13	133,069	146,352	153,508
Financial assets designated at fair value	14	38,968	46,629	37,767
Derivative financial instruments	15	324,335	469,156	538,977
Available for sale investments	16	91,756	75,109	68,495
Loans and advances to banks	20	37,853	40,462	47,422
Loans and advances to customers	20	430,411	423,906	429,559
Reverse repurchase agreements and other similar secured lending	23	186,779	176,522	153,030
Prepayments, accrued income and other assets		4,414	4,365	4,565
Investments in associates and joint ventures	40	653	633	487
Property, plant and equipment	24	4,216	5,754	7,166
Goodwill and intangible assets	25	7,685	7,915	7,846
Current tax assets	10	219	252	374
Deferred tax assets	10	4,807	3,563	3,611
Retirement benefit assets	37	133	53	41
Total assets		1,312,267	1,488,335	1,561,650
Liabilities				
Deposits from banks		54,834	77,012	91,123
Items in the course of collection due to other banks		1,359	1,587	969
Customer accounts		427,902	385,411	365,527
Repurchase agreements and other similar secured borrowing	23	196,748	217,178	207,292
Trading portfolio liabilities	13	53,464	44,794	45,887
Financial liabilities designated at fair value	17	64,796	78,561	88,453
Derivative financial instruments	15	320,634	462,721	528,249
Debt securities in issue		86,693	119,525	129,678
Subordinated liabilities	31	21,695	24,018	24,870
Accruals, deferred income and other liabilities	27	12,934	12,532	12,854
Provisions	28	3,886	2,766	1,529
Current tax liabilities	10	1,042	621	1,396
Deferred tax liabilities	10	373	341	566
Retirement benefit liabilities	37	1,958	1,282	243
Total liabilities		1,248,318	1,428,349	1,498,636
Total equity				
Called up share capital and share premium	32	19,887	12,477	12,380
Other equity instruments	32	2,063	—	—
Other reserves	33	249	3,674	3,837
Retained earnings		33,186	34,464	37,190
Total equity excluding non-controlling interests		55,385	50,615	53,407
Non-controlling interests	34	8,564	9,371	9,607
Total equity		63,949	59,986	63,014
Total liabilities and equity		1,312,267	1,488,335	1,561,650

Sir David Walker
Group Chairman

Antony Jenkins
Group Chief Executive

Tushar Morzaria
Group Finance Director

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Consolidated statement of change in equity

	Called up share capital and share premium ^a £m	Other equity instruments ^a £m	Available for sale reserve ^a £m	Cash flow hedging reserve ^a £m	Currency translation reserve ^a £m	Other reserves and treasury shares ^a £m	Retained earnings £m	Total £m	Non- controlling interests £m	Total equity £m
Balance as at 1 January 2013	12,477	–	527	2,099	59	989	34,464	50,615	9,371	59,986
Profit after tax	–	–	–	–	–	–	540	540	757	1,297
Currency translation movements	–	–	–	–	(1,201)	–	–	(1,201)	(566)	(1,767)
Available for sale investments	–	–	(379)	–	–	–	–	(379)	(3)	(382)
Cash flow hedges	–	–	–	(1,826)	–	–	–	(1,826)	(64)	(1,890)
Pension remeasurement	–	–	–	–	–	–	(503)	(503)	(12)	(515)
Other	–	–	–	–	–	–	(37)	(37)	–	(37)
Total comprehensive (loss)/income for the year	–	–	(379)	(1,826)	(1,201)	–	–	(3,406)	112	(3,294)
Issue of new ordinary shares	6,620	–	–	–	–	–	–	6,620	–	6,620
Issue of shares under employee share schemes	790	–	–	–	–	–	689	1,479	–	1,479
Issue of other equity instruments	–	2,063	–	–	–	–	–	2,063	–	2,063
Increase in treasury shares	–	–	–	–	–	(1,066)	–	(1,066)	–	(1,066)
Vesting of shares under employee share schemes	–	–	–	–	–	1,047	(1,047)	–	–	–
Dividends paid	–	–	–	–	–	–	(859)	(859)	(813)	(1,672)
Other reserve movements	–	–	–	–	–	–	(61)	(61)	(106)	(167)
Balance as at 31 December 2013	19,887	2,063	148	273	(1,142)	970	33,186	55,385	8,564	63,949
Balance as at 31 December 2011 published	12,380	–	25	1,442	1,348	1,022	39,372	55,589	9,607	65,196
Effects of IFRS 10	–	–	–	–	–	–	(945)	(945)	–	(945)
Effects of IAS 19 Revised	–	–	–	–	–	–	(1,237)	(1,237)	–	(1,237)
Balance as at 1 January 2012 restated	12,380	–	25	1,442	1,348	1,022	37,190	53,407	9,607	63,014
Profit after tax	–	–	–	–	–	–	(624)	(624)	805	181
Currency translation movements	–	–	–	–	(1,289)	–	–	(1,289)	(259)	(1,548)
Available for sale investments	–	–	502	–	–	–	–	502	44	546
Cash flow hedges	–	–	–	657	–	–	–	657	5	662
Pension remeasurement	–	–	–	–	–	–	(1,235)	(1,235)	–	(1,235)
Other	–	–	–	–	–	–	95	95	1	96
Total comprehensive income for the year	–	–	502	657	(1,289)	–	(1,764)	(1,894)	596	(1,298)
Issue of shares under employee share schemes	97	–	–	–	–	–	717	814	–	814
Increase in treasury shares	–	–	–	–	–	(979)	–	(979)	–	(979)
Vesting of shares under employee share schemes	–	–	–	–	–	946	(946)	–	–	–
Dividends paid	–	–	–	–	–	–	(733)	(733)	(694)	(1,427)
Redemption of Reserve Capital Instruments	–	–	–	–	–	–	–	–	–	–
Other reserve movements	–	–	–	–	–	–	–	–	(138)	(138)
Balance as at 31 December 2012	12,477	–	527	2,099	59	989	34,464	50,615	9,371	59,986

Notes

a For further details refer to Note 32.

b For further details refer to Note 33.

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Consolidated cash flow statement

For the year ended 31 December	2013 £m	2012 £m	2011 £m
Continuing operations			
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax	2,868	797	5,770
Adjustment for non-cash items:			
Allowance for impairment	3,071	3,340	5,602
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	1,274	1,119	1,104
Other provisions, including pensions	3,674	3,080	1,787
Net profit on disposal of investments and property, plant and equipment	(145)	(679)	(1,645)
Other non-cash movements	(1,293)	5,565	1,454
Changes in operating assets and liabilities			
Net (increase)/decrease in loans and advances to banks and customers	(6,783)	1,832	(13,836)
Net (increase)/decrease in reverse repurchase agreements and other similar lending	(10,264)	(23,492)	52,176
Net (decrease)/increase in deposits and debt securities in issue	(12,519)	(4,388)	6,712
Net (decrease)/increase in repurchase agreements and other similar borrowing	(20,430)	9,886	(18,266)
Net decrease in derivative financial instruments	2,734	4,293	3,730
Net decrease in trading assets	13,443	6,896	21,360
Net increase/(decrease) in trading liabilities	8,670	(973)	(26,899)
Net (increase)/decrease in financial investments	(6,114)	(18,764)	(4,255)
Net decrease in other assets	128	535	119
Net (decrease) in other liabilities	(1,930)	(1,354)	(4,148)
Corporate income tax paid	(1,558)	(1,516)	(1,686)
Net cash from operating activities	(25,174)	(13,823)	29,079
Purchase of available for sale investments	(92,015)	(80,797)	(67,525)
Proceeds from sale or redemption of available for sale investments	69,473	73,773	66,941
Purchase of property, plant and equipment	(736)	(604)	(1,454)
Other cash flows associated with investing activities	633	531	126
Net cash from investing activities	(22,645)	(7,097)	(1,912)
Dividends paid	(1,672)	(1,427)	(1,387)
Proceeds of borrowings and issuance of subordinated debt	700	2,258	880
Repayments of borrowings and redemption of subordinated debt	(1,425)	(2,680)	(4,003)
Net issue of shares and other equity instruments	9,473	97	41
Net (purchase) of treasury shares	(1,066)	(979)	(235)
Net redemption of shares issued to non-controlling interests	(100)	(111)	(1,257)
Net cash from financing activities	5,910	(2,842)	(5,961)
Effect of exchange rates on cash and cash equivalents	198	(4,111)	(2,933)
Net (decrease)/increase in cash and cash equivalents	(41,711)	(27,873)	18,273
Effects of IFRS10 on opening balance	–	96	–
Cash and cash equivalents at beginning of year	121,896	149,673	131,400
Cash and cash equivalents at end of year	80,185	121,896	149,673
Cash and cash equivalents comprise:			
Cash and balances at central banks	45,687	86,191	106,894
Loans and advances to banks with original maturity less than three months	33,690	33,473	40,481
Available for sale treasury and other eligible bills with original maturity less than three months	644	2,228	2,209
Trading portfolio assets with original maturity less than three months	164	4	89
	80,185	121,896	149,673

Interest received in 2013 was £23,387m (2012: £24,390m, 2011: £28,673m) and interest paid in 2013 was £10,709m (2012: £16,701, 2011: £20,106m).

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £4,722m at 31 December 2013 (2012: £5,169m, 2011: £4,364m).

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

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Financial statements of Barclays PLC >

Parent company accounts

Income statement				
For the year ended 31 December	Notes	2013 £m	2012 £m	2011 £m
Dividends received from subsidiary		734	696	643
Net Interest income		(6)	4	5
Other (expense)/income	47	(137)	16	—
Management charge from subsidiary		(6)	(5)	(5)
Profit before tax		585	711	643
Tax		35	(4)	—
Profit after tax		620	707	643

Profit after tax and total comprehensive income for the year was £620m (2012: £707m, 2011: £643m). There were no other components of total comprehensive income other than the profit after tax.

The Company had no staff during the year (2012: nil, 2011: nil).

Balance sheet				
As at 31 December	Notes	2013 £m	2012 £m	
Assets				
Investments in subsidiary	47	30,059	21,429	
Derivative financial instrument	47	271	422	
Other assets	47	812	86	
Total assets		31,142	21,937	
Liabilities				
Deposits from banks		400	409	
Other liabilities		—	3	
Total liabilities		400	412	
Shareholders' equity				
Called up share capital	33	4,028	3,061	
Share premium account	33	15,859	9,416	
Other equity instruments	33	2,063	—	
Capital redemption reserve		394	394	
Retained earnings		8,398	8,654	
Total shareholders' equity		30,742	21,525	
Total liabilities and shareholders' equity		31,142	21,937	

The financial statements on pages 282 to 376 were approved by the Board of Directors on 3 March 2014 and signed on its behalf by:

Sir David Walker
Group Chairman

Antony Jenkins
Group Chief Executive

Tushar Morzaria
Group Finance Director

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Statement of changes in equity						
	Notes	Called up share capital and share premium ^a £m	Other equity instruments	Capital reserves and other equity £m	Retained earnings £m	Total equity £m
Balance as at 1 January 2013		12,477	–	394	8,654	21,525
Profit after tax and total comprehensive income		–	–	–	620	620
Issue of new ordinary shares		6,620	–	–	–	6,620
Issue of shares under employee share schemes		790	–	–	–	790
Issue of other equity instruments		–	2,063	–	–	2,063
Dividends	12	–	–	–	(859)	(859)
Other		–	–	–	(17)	(17)
Balance as at 31 December 2013		19,887	2,063	394	8,398	30,742
Balance as at 1 January 2012		12,380	–	394	8,680	21,454
Profit after tax and total comprehensive income		–	–	–	707	707
Issue of shares under employee share schemes		97	–	–	–	97
Dividends	12	–	–	–	(733)	(733)
Balance as at 31 December 2012		12,477	–	394	8,654	21,525
Cash flow statement						
		2013 £m	2012 £m	2011 £m		
For the year ended 31 December						
Reconciliation of profit before tax to net cash flows from operating activities:						
Profit before tax		585	711	643		
Changes in operating assets and liabilities		(546)	(72)	(14)		
Other non-cash movements		(20)	(4)	–		
Corporate income tax paid		(3)	–	–		
Net cash from operating activities		16	635	629		
Capital contribution to subsidiary		(8,630)	–	–		
Net cash used in investing activities		(8,630)	–	–		
Issue of shares and other equity instruments		9,473	97	41		
Dividends paid		(859)	(733)	(670)		
Net cash from financing activities		8,614	(636)	(629)		
Net decrease in cash and cash equivalents		–	(1)	–		
Cash and cash equivalents at beginning of year		–	1	1		
Cash and cash equivalents at end of year^b		–	–	1		
Net cash from operating activities includes:						
Dividends received		734	696	643		
Interest (paid)/received		(6)	4	5		

The Parent Company's principal activity is to hold the investment in its wholly-owned subsidiary, Barclays Bank PLC. Dividends received are treated as operating income.

The Company was not exposed at 31 December 2013 or 2012 to significant risks arising from the financial instruments it holds, which comprised cash, balances with central banks and other assets which had no market risk or material credit risk.

Notes

a Details of share capital and share premium are shown in Note 32

b Comprising cash and balances at central banks.

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Notes to the financial statements >

For the year ended 31 December 2013



This section describes Barclays significant accounting policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a specific note, the applicable accounting policy and/or critical accounting estimate is contained within the relevant note.

Note 1: Significant accounting policies

1. Reporting entity

These financial statements are prepared for Barclays PLC and its subsidiaries (the Barclays PLC Group or the Group) under Section 399 of the Companies Act 2006. The Group is a major global financial services provider engaged in retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services. In addition, individual financial statements have been presented for the holding company.

2. Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group, and the individual financial statements of Barclays PLC, have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied.

3. Basis of preparation

The consolidated and individual financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of pounds Sterling (£m), the functional currency of Barclays PLC.

4. Accounting policies

The Group's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out under the relevant notes. Accounting policies that affect the financial statements as a whole are set out below.

(i) Consolidation

Barclays applies IFRS 10 *Consolidated Financial Statements*.

The consolidated financial statements combine the financial statements of Barclays PLC and all its subsidiaries. Subsidiaries are entities over which Barclays PLC has control. The Group has control over another entity when the Group has all of the following:

- 1) power over the relevant activities of the investee, for example through voting or other rights;
- 2) exposure to, or rights to, variable returns from its involvement with the investee; and
- 3) the ability to affect those returns through its power over the investee.

The assessment of control is based on the consideration of all facts and circumstances. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Details of the principal subsidiaries are given in Note 38.

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Note 1: Significant accounting policies continued

(ii) Foreign currency translation

The Group applies IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Transactions and balances in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction. Foreign currency balances are translated into Sterling at the period end exchange rates. Exchange gains and losses on such balances are taken to the income statement.

The Group's foreign operations (including subsidiaries, joint ventures, associates and branches) based mainly outside the UK may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed.

Prior to consolidation (or equity accounting) the assets and liabilities of non-Sterling operations are translated at the closing rate and items of income, expense and other comprehensive income are translated into Sterling at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity. These are transferred to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on partial disposal of the operation.

As the consolidated financial statements include partnerships where the Group member is a partner, advantage has been taken of the exemption under Regulation 7 of the Partnership (Accounts) Regulations 2008 with regard to preparing and filing of individual partnership financial statements.

(iii) Financial assets and liabilities

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement* for the recognition, classification and measurement and derecognition of financial assets and financial liabilities, for the impairment of financial assets, and for hedge accounting.

Recognition

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

Classification and measurement

Financial assets and liabilities are initially recognised at fair value and may be held at fair value or amortised cost depending on the Group's intention toward the assets and the nature of the assets and liabilities, mainly determined by their contractual terms.

The accounting policy for each type of financial asset or liability is included within the relevant note for the item. The Group's policies for determining the fair values of the assets and liabilities are set out in Note 18.

Derecognition

The Group derecognises a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% in the present value of the cash flows – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Critical accounting estimates and judgements

Transactions in which the Group transfers assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis compares the Group's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around this expectation. The method of estimating expected future cash flows depends on the nature of the asset, with market and market-implied data used to the greatest extent possible. The potential variability around this expectation is typically determined by stressing underlying parameters to create reasonable alternative upside and downside scenarios. Probabilities are then assigned to each scenario. Stressed parameters may include default rates, loss severity or prepayment rates.

(iv) Issued debt and equity instruments

The Group applies IAS 32, *Financial Instruments: Presentation*, to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the

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Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the AGM and treated as a deduction from equity.

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

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Note 1: Significant accounting policies continued**5. New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except where new standards and amendments to IFRS effective as of 1 January 2013 have resulted in changes in accounting policy. The new amended standards that have material impact on Barclays accounting policies are as follows:

IFRS 10

IFRS 10 replaced requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. This introduced new criteria to determine whether entities in which the Group has interests should be consolidated. The implementation of IFRS 10 resulted in the Group consolidating some entities that were previously not consolidated and deconsolidating some entities that were previously consolidated, principally impacting the consolidation of entities in the Investment Bank with credit market exposures.

IAS 19

IAS 19 (Revised 2011), amongst other changes, requires actuarial gains and losses arising from defined benefit pension schemes to be recognised in full. Previously the Group deferred these over the remaining average service lives of the employees (known as the 'corridor' approach).

The effect of the adoption of these new or amended standards on the Group's financial position, performance and cash flows is disclosed in Note 46.

IFRS 13 Fair Value Measurement

IFRS 13 provides comprehensive guidance on how to calculate the fair value of financial and non-financial assets. The adoption of IFRS 13 did not have a material financial impact on the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Joint Ventures*. The new rules change the definition of a joint operation, requiring the group to recognise its share of income and expenses, and assets and liabilities for certain entities that were previously accounted for under the equity method. The new standard also removed the option to proportionally consolidate joint arrangements, an option the Group did not use. The adoption of IFRS 11 did not have a material impact on the Group's results or financial position.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 specifies the required disclosures in respect of interests in, and risks arising from, subsidiaries, joint ventures, associates and structured entities whether consolidated or not. As a disclosure only standard it will have no financial impact on the Group.

Amendment to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The Group applied the amendment in the current year, although it did not have a material impact on the Group's results or financial position.

6. Future accounting developments

There have been and are expected to be a number of significant changes to the Group's financial reporting after 2013 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these are as follows:

IAS 32 *Amendments to Offsetting Financial Assets and Financial Liabilities*, is effective from 1 January 2014. The circumstances in which netting is permitted have been clarified; in particular what constitutes a currently legally enforceable right of set-off and the circumstances in which gross settlement systems may be considered equivalent to net settlement. The amendments, based on current assumptions and applied to the 31 December 2013 balance sheet, are expected to gross up by approximately £35bn certain financial assets and financial liabilities in the balance sheet (mainly derivatives, settlement balances and repurchase agreements) that were previously reported net. There will be no impact on shareholders equity, profit or loss, other comprehensive income, or cash flows, and no significant impact on the Common equity Tier 1 ratio or the CRD IV leverage ratio. The actual impact could differ to our current estimate as certain industry-wide application issues have yet to be resolved.

IFRS 9 *Financial Instruments* will change the classification and therefore the measurement of the Group's financial assets, the recognition of impairment and hedge accounting. In addition to these changes, the effect of changes in the Group's own credit risk on the fair value of financial liabilities that the group designates at fair value through profit and loss will be included in other comprehensive income rather than the income statement. A number of the significant proposals have yet to be finalised and it is therefore not yet possible to estimate the financial effects. The effective date of IFRS 9 is still to be determined.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees

would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

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Note 1: Significant accounting policies continued

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements are highlighted under the relevant note. Critical accounting estimates and judgements are disclosed in:

	Page		Page
Credit impairment charges and other provisions	292	Goodwill and intangible assets	328
Tax	294	Provisions	332
Available for sale investments	303	Pensions and post-retirement benefits	351
Fair value of assets and liabilities	304		

7. Other disclosures

To improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication, certain disclosures required under IFRS have been included within the Risk and Financial review sections as follows:

- Credit risk, on pages 142 to 189, including exposures to Eurozone countries;
- Market risk, on pages 190 to 198;
- Funding risk – capital, on pages 199 to 207;
- Funding risk – liquidity, on pages 208 to 224; and
- Segmental reporting on page 288.

These are covered by the Audit opinion included on pages 271 to 275.

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Performance



The notes included in this section focus on the results and performance of the Group. Information on the income generated, expenditure incurred, segmental performance, tax, earnings per share and dividends are included here.

Note 2: Segmental reporting

Presentation of segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments*. Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in Head Office. Income and expenses directly associated with each segment are included in determining business segment performance.



An analysis of the Group's performance by business segment and income by geographic segment is included on pages 249 and 250

Note 3: Net interest income

Accounting for interest income and expense

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement*. Interest income on loans and advances at amortised cost, available for sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), in the normal course of business there are no individual estimates that are material to the results or financial position.

See also Note 14 Financial assets designated at fair value and Note 17 Financial liabilities designated at fair value for relevant accounting policies.

	2013 £m	2012 £m	2011 £m
Cash and balances with central banks	219	253	392
Available for sale investments	1,804	1,736	2,137
Loans and advances to banks	468	376	350
Loans and advances to customers	15,613	16,448	17,271
Other	211	399	439
Interest income	18,315	19,212	20,589
Deposits from banks	(201)	(257)	(366)
Customer accounts	(2,656)	(2,485)	(2,526)
Debt securities in issue	(2,176)	(2,921)	(3,524)
Subordinated liabilities	(1,572)	(1,632)	(1,813)
Other	(110)	(263)	(159)
Interest expense	(6,715)	(7,558)	(8,388)
Net interest income	11,600	11,654	12,201

Interest income includes £179m (2012: £211m, 2011: £243m) accrued on impaired loans.

Other interest income principally includes interest income relating to reverse repurchase agreements and hedging activity. Similarly, other interest expense principally includes interest expense relating to repurchase agreements and hedging activity.

Included in net interest income is hedge ineffectiveness as detailed on page 302.

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Note 3: Net interest income continued

2013

Net interest income remained stable at £11,600m (2012: £11,654m). Interest income decreased by 5% to £18,315m driven by a reduction in income from loans and advances to customers which fell £835m to £15,613m. The decrease in interest income from loans and advances to customers is attributable primarily to a reduction of £661m in Africa RBB, driven by the adverse impact of the depreciation of the ZAR, and a reduction of £382m in the Investment Bank due to reduced average balances. These movements were partly offset by a £303m increase in UK RBB reflecting increased average loan balances due to organic growth and contribution from Barclays Direct. Interest expense reduced 11% to £ 6,715m, driven by a reduction in interest on debt securities in issue of £745m to £2,176m due to lower average balances and lower yields.

The net interest margin for Retail and Business Banking, Corporate Banking and Wealth and Investment Management decreased by 8bps to 1.76% (2012: 1.84%), reflecting the reduction in contribution from customer liabilities and Group hedging activities, combined with a reduced contribution from the higher margins in Africa RBB as ZAR depreciated against GBP.

2012

Net interest income declined by 4% to £11,654m. Interest income decreased by 7% to £19,212m, driven by a reduction in income from loans and advances to customers, which fell £823m to £16,448m, and interest income derived from available for sale investments, which fell £401m to £ 1,736m. The decrease in interest income from loans and advances to customers is attributable primarily to the Investment Bank and Africa RBB reflecting lower average loan balances. These movements were partly offset by a £110m increase in Barclaycard reflecting increased average loan balances due to the Egg acquisition. The fall in interest from available for sale investments primarily reflects lower average balances and yield in the Investment Bank and lower yields on government bonds held in the Liquidity Risk Appetite portfolio. Interest expense reduced by 10% to £7,557m, driven by a reduction in interest on debt securities in issue of £603m to £2,921m due to lower average balances and lower yields, and a reduction in interest on subordinated liabilities of £181m to £1,632m due to lower average balances.

The net interest margin for Retail and Business Banking, Barclaycard, Corporate Banking and Wealth and Investment Management decreased to 1.84% (2011: 2.03%), primarily reflecting the reduction in contribution from Group hedging activities.

Note 4: Net fee and commission income

Accounting for net fee and commission income

The Group applies IAS 18 *Revenue*. *Fees and commissions* charged for services provided or received by the Group are recognised as the services are provided, for example on completion of the underlying transaction.

	2013 £m	2012 £m	2011 £m
Fee and commission income			
Banking, investment management and credit related fees and commissions	10,284	9,945	9,958
Brokerage fees	27	92	87
Foreign exchange commission	168	176	163
Fee and commission income	10,479	10,213	10,208
Fee and commission expense	(1,748)	(1,677)	(1,586)
Net fee and commission income	8,731	8,536	8,622

2013

Net fee and commission income remained stable with a £195m increase to £8,731m. Higher fees as a result of increased volumes within Barclaycard Business Payment and US portfolios and growth in equity underwriting activity and a strong equity capital market (ECM) deal calendar were offset by lower commissions mainly from syndicate and advisory business following concerns about potential slowing down of quantitative easing and the impact of adverse currency movements in Africa RBB.

2012

Net fee and commission income remained stable with an £86m decline to £8,536m. Higher fees as a result of increased volumes within the Barclaycard Business Payment and US portfolios and growth in debt and equity underwriting activity were offset by lower commissions mainly from Italy mortgage sales and the impact of adverse currency movements in Africa RBB.

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Note 5: Net trading income

Accounting for net trading income

In accordance with IAS 39, trading positions are held at fair value and the resulting gains and losses are included in the income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through profit or loss. See Note 17 Financial liabilities designated at fair value.

	2013 £m	2012 £m	2011 £m
Trading income	6,773	7,926	4,952
Own credit (losses)/gains	(220)	(4,579)	2,708
Net trading income	6,553	3,347	7,660

Included within net trading income were gains of £914m (2012: £656m gain; 2011: £16m loss) on financial assets designated at fair value and losses of £684m (2012: £3,980m loss; 2011: £3,850m gain) on financial liabilities designated at fair value.

2013

Net trading income increased 96% to £6,553m, primarily reflecting a £4,359m variance in own credit (2013: £220m charge; 2012: £4,579m charge) as a result of improved credit spreads on Barclays' issued debt. This was offset partially by a £1,153m decrease in trading income, reflecting market uncertainty around central banks tapering of quantitative easing programmes across a number of product areas in FICC.

2012

Net trading income decreased 56% to £3,347m, primarily reflecting a £7,287m variance in own credit (2012: £4,579m charge; 2011: £2,708m gain) as a result of improved credit spreads on Barclays' issued debt. This was offset partially by a £2,974m increase in underlying trading income, reflecting increased liquidity and higher client volumes across a number of product areas in FICC and an improved performance in cash equities and equity derivatives in Equities and Prime Services.

Note 6: Net investment income

Accounting for net investment income

Dividends are recognised when the right to receive the dividend has been established. Other accounting policies relating to net investment income are set out in Note 16 Available for sale investments, and Note 14 Financial assets designated at fair value.

	2013 £m	2012 £m	2011 £m
Net gain from disposal of available for sale investments	145	452	1,645
Dividend income	14	42	129
Net gain from financial instruments designated at fair value	203	233	287
Other investment income	318	117	244
Net investment income	680	844	2,305

2013

Net investment income decreased by £164m to £680m. This was largely driven by lower gains on disposal of available for sale investments partially offset by increases in other investment income as a result of greater certainty regarding the recoverability of certain assets not yet received from the 2008 US Lehman acquisition.

2012

Net investment income decreased by £1,461m to £844m largely driven by the non-recurrence of gains on disposal of the economic structural hedge portfolio during 2011 and a reduction in dividends following the disposal of the Group's stake in BlackRock, Inc. during the first half of 2012.

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Note 7: Credit impairment charges and other provisions

Accounting for the impairment of financial assets

Loans and other assets held at amortised cost

In accordance with IAS 39, the Group assesses at each balance sheet date whether there is objective evidence that loan assets or available for sale investments (debt or equity) will not be recovered in full and, wherever necessary, recognises an impairment loss in the income statement.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- Becoming aware of significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together, generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset or the group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Available for sale investments

Impairment of available for sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity is removed from equity and recognised in the income statement. This may be reversed if there is evidence that the circumstances of the issuer have improved.

Impairment of available for sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income. Further declines in the fair value of equity instruments after impairment are recognised in the income statement.

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Note 7: Credit impairment charges and other provisions continued**Critical accounting estimates and judgements**

The calculation of the impairment allowance involves the use of judgement, based on the Group's experience of managing credit risk.

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these retail portfolios is £2,161m (2012: £2,075m; 2011: £2,477m) and amounts to 71% (2012: 63%; 2011: 65%) of the total impairment charge on loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment charge reflected in the financial statements in relation to wholesale portfolios is £901m (2012: £1,228m; 2011: £1,313m) and amounts to 29% (2012: 37%; 2011: 35%) of the total impairment charge on loans and advances. Further information on impairment allowances and related credit information is set out within the Risk review.

	2013 £m	2012 £m	2011 £m
New and increased impairment allowances	3,929	4,447	4,962
Releases	(683)	(928)	(931)
Recoveries	(201)	(212)	(265)
Impairment charges on loans and advances	3,045	3,307	3,766
Charges/(releases) in respect of provision for undrawn contractually committed facilities and guarantees provided	17	(4)	24
Loan impairment	3,062	3,303	3,790
Available for sale investment (excluding BlackRock, Inc.)	1	40	60
Reverse repurchase agreements	8	(3)	(48)
Credit impairment charges and other provisions	3,071	3,340	3,802
Impairment of investment in BlackRock, Inc.	–	–	1,800

More information on the impairment assessment and the measurement of credit losses is included on pages 396 to 398. The movements on the impairment allowance and the charge for the year is shown on page 154.

2013

Loan impairment fell 7% to £3,062m, reflecting lower impairment in Africa RBB and Corporate Banking, partially offset by higher charges in Europe RBB, Barclaycard and UK RBB.

2012

Loan impairment fell 13% to £3,303m, reflecting lower impairment in UK RBB, Barclaycard and Corporate Banking, partially offset by higher charges in Europe and South Africa.

Further analysis of the Group's impairment charges is presented on pages 154 to 156.

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Note 8: Administration and general expenses

	2013 £m	2012 £m	2011 £m
Infrastructure costs			
Property and equipment	1,610	1,656	1,763
Depreciation of property, plant and equipment	647	669	673
Operating lease rentals	645	622	659
Amortisation of intangible assets	480	435	419
Impairment of property, equipment and intangible assets	149	17	12
Total infrastructure costs	3,531	3,399	3,526
Other costs			
Consultancy, legal and professional fees	1,253	1,182	1,027
Subscriptions, publications, stationery and communications	869	727	740
Marketing, advertising and sponsorship	583	572	585
Travel and accommodation	307	324	328
UK bank levy	504	345	325
Goodwill impairment	79	–	597
Other administration and general expenses	691	546	405
Total other costs	4,286	3,696	4,007
Administration and general expenses^{a,b}	7,817	7,095	7,533

2013

Administration and general expenses have increased 10% to £7,817m. This was driven by increased infrastructure costs due to the Transform programme, increased consultancy, legal and professional costs to meet new regulatory requirements such as the Dodd-Frank Act and CRD IV, an increase in the UK bank levy reflecting the increased rate and an increase in impairment in relation to premises restructuring in Europe. Within other administration and general expenses, increases in provisions for litigation and regulatory penalties were offset by the non-recurrence of the £290m penalty incurred in 2012 arising from the industry wide investigation into the setting of inter-bank offered rates.

2012

Administration and general expenses have fallen 6% to £7,095m, primarily due to £597m goodwill impairment in 2011 not recurring in 2012 and a reduction in the underlying cost base reflecting the impact of the Group-wide cost reduction initiative. This has been partly offset by the £290m penalty relating to the industry wide investigation into the setting of interbank offered rates and an increase in expenses relating to the Financial Services Compensation Scheme.

Note 9: Profit on disposal of subsidiaries, associates and joint ventures

There have been no material disposals during the year. The profit on disposal of subsidiaries, associates and joint ventures was £6m (2012: £28m), principally relating to accumulated foreign exchange gains (previously recognised directly in equity) recycled through the income statement within Head Office and Other Operations.

Notes

a Total administration and general expenses of £7,817m (2012: £7,095m; 2011: £7,533m) include depreciation of property, plant and equipment of £647m (2012: £669m; 2011: £673m), amortisation of intangible assets of £480m (2012: £435m; 2011: £419m), goodwill impairment of £79m (2012: £nil; 2011: £597m) and administration and other expenses of £6,611m (2012: £5,991m; 2011: £5,844m).

b The group has realigned outsourcing costs from administration and general expenses to staff costs in order to more appropriately reflect the nature and internal management of these costs. The net effect of these movements is to reduce administration and general expenses and, to increase staff costs by £1,084m in 2013 and £997m in 2012.

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Note 10: Tax**Accounting for income taxes**

Barclays applies IAS 12 *Income Taxes* in accounting for taxes on income. Income tax payable on taxable profits ('Current Tax') is recognised as an expense in the period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

	2013 £m	2012 £m	2011 £m
Current tax charge			
Current year	1,997	568	2,690
Adjustment for prior years	156	207	(61)
	2,153	775	2,629
Deferred tax (credit)			
Current year	(68)	(72)	(657)
Adjustment for prior years	(514)	(87)	(70)
	(582)	(159)	(727)
Tax charge	1,571	616	1,902

Tax relating to each component of other comprehensive income can be found in the consolidated statement of comprehensive income, which includes within Other a tax charge of £37m (2012: £96m credit; 2011: £74m charge), principally relating to the UK tax rate change in 2013 and share based payments in 2012 and 2011.

The table below shows the reconciliation between the actual tax charge and the tax charge that would result from applying the standard UK corporation tax rate to the Group's profit before tax.

	2013 £m	2012 £m	2011 £m
Profit before tax from continuing operations	2,868	797	5,770
Tax charge based on the standard UK corporation tax rate of 23.25% (2012: 24.5%, 2011: 26.5%)	667	195	1,529
Effect of non-UK profits/losses at statutory tax rates different from the UK statutory tax rate	267	401	193
Non-creditable taxes	559	563	567
Non-taxable gains and income	(234)	(642)	(494)
Share based payments	(13)	(63)	147
Deferred tax assets not recognised/(previously not recognised)	409	(135)	(816)
Change in tax rates	(159)	(75)	17
Non-deductible impairment charges, loss on disposals and UK bank levy	118	84	770
Other items including non-deductible expenses	315	168	120
Adjustments in respect of prior years	(358)	120	(131)
Tax charge	1,571	616	1,902
Effective tax rate	54.8%	77.3%	33.0%

The tax charge of £1,571m (2012: £616m) represented an effective tax rate of 54.8% (2012: 77.3%) on profit before tax of £2,868m (2012: £797m). The effective tax rate decreased mainly due to the non-recurrence of the factors that increased the rate in 2012, principally the combination of significant losses in the UK (with relief at the UK statutory rate of 24.5%) and profits outside the UK taxed at higher rates.

The effective tax rate is higher than the UK statutory tax rate of 23.25% (2012: 24.5%) due to the items represented in the tax rate reconciliation above.

The tax charge for 2013 included a credit of £358m relating to adjustments in respect of prior years which comprises of £337m relating to the reassessment of items with uncertain tax treatment resulting from audit settlements with non-UK tax authorities and £21m relating to differences between the final tax charge in prior period tax returns for entities in the consolidated Group and the estimated tax charge included in the consolidated financial statements. These adjustments in respect of prior years are not considered to be indicative of future trends.

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Note 10: Tax continued

Current tax assets and liabilities

Movements on current tax assets and liabilities were as follows:

	2013 £m	2012 £m
Assets	252	374
Liabilities	(621)	(1,397)
As at 1 January	(369)	(1,023)
Income statement	(2,153)	(775)
Other comprehensive income	(2)	(172)
Corporate income tax paid	1,558	1,516
Other movements	143	85
	(823)	(369)
Assets	219	252
Liabilities	(1,042)	(621)
As at 31 December	(823)	(369)

Other movements include current tax amounts relating to acquisitions, disposals and exchange gains and losses.

Deferred tax assets and liabilities

The deferred tax amounts on the balance sheet were as follows:

	2013 £m	2012 £m
Barclays Group US Inc. tax group (BGUS)	1,449	1,160
US Branch of Barclays Bank PLC (US Branch)	1,362	953
UK Group relief group	1,171	532
Spanish tax group	353	611
Other	472	307
Deferred tax asset	4,807	3,563
Deferred tax liability	(373)	(341)
Net deferred tax	4,434	3,222

US deferred tax assets in BGUS and the US Branch

The deferred tax asset in BGUS of £1,449m (2012: £1,160m) and the US Branch of £1,362m (2012: £953m) includes amounts relating to tax losses of £156m (2012: £135m) and £408m (2012: £834m) respectively, which first arose in 2007. In accordance with US tax rules tax losses can be carried forward and offset against profits for a period of 20 years and therefore any unused tax losses may begin to expire in 2028. The remaining balance primarily relates to temporary differences which are not time limited. The US Branch deferred tax asset is stated net of a measurement for UK tax because Barclays Bank PLC is subject to UK tax on the profits of its non-UK branches.

BGUS returned to profitability in 2012, primarily driven by Barclays Capital Inc., its US broker dealer, with tax losses expected to be fully utilised by 2015. A 20% reduction in forecasted profit would not extend the recovery period. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

The tax losses in the US Branch are projected to be fully utilised by 2017, based on profit forecasts covering the period from 2014 to 2018. A 20% reduction in forecasted profit would extend the recovery period by 1 year to 2018. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

UK Group relief group deferred tax asset

The deferred tax asset in the UK Group relief group of £1,171m (2012: £532m) includes £499m (2012: £342m) relating to tax losses. Tax losses can be carried forward indefinitely in the UK. The remaining balance relates to other temporary differences. Based on profit forecasts, it is probable that there will be sufficient future taxable profits available against which the temporary differences and losses will be utilised.

Spain deferred tax asset

A change in Spanish law in December 2013 resulted in the protection of certain deferred tax assets, mainly relating to pensions and impairments, whilst the remaining deferred tax assets (that are not protected by the change in law) continue to be reliant on future profits. Based on the current assessment of business forecasts there is insufficient evidence that future profits will be available to recover unprotected deferred tax assets for accounting purposes. As such only the protected deferred tax assets continue to be recognised resulting in a write down of £440m.

Other deferred tax assets

The deferred tax asset of £472m (2012: £307m) in other entities includes £157m (2012: £55m) relating to tax losses carried forward. Entities which have suffered a loss in either the current or prior year have a total deferred tax asset of £114m (2012: £135m) relating to tax losses carried forward and temporary differences. Recognition is based on profit forecasts which indicate that it is probable that the entities will have future taxable profits against which the losses and temporary differences can be

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Note 10: Tax continued

	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Retirement benefit obligations £m	Loan impairment allowance £m	Other provisions £m	Tax losses carried forward £m	Share based payments and deferred compensation £m	Other £m	Total £m
Assets	158	61	53	542	457	105	1,636	858	1,190	5,060
Liabilities	(225)	(67)	(714)	(1)	–	–	–	–	(831)	(1,838)
At 1 January 2013	(67)	(6)	(661)	541	457	105	1,636	858	359	3,222
Income statement	904	(12)	–	(65)	(74)	270	(400)	(45)	4	582
Other comprehensive income	–	(17)	571	(5)	–	–	122	(33)	(1)	637
Other movements	(73)	27	8	10	(7)	(15)	(123)	(18)	184	(7)
	764	(8)	(82)	481	376	360	1,235	762	546	4,434
Assets	1,525	53	5	490	376	360	1,235	762	1,078	5,884
Liabilities	(761)	(61)	(87)	(9)	–	–	–	–	(532)	(1,450)
At 31 December 2013	764	(8)	(82)	481	376	360	1,235	762	546	4,434
Assets	254	186	–	403	431	261	1,493	506	1,285	4,819
Liabilities	(404)	(65)	(489)	(3)	–	–	–	–	(1,096)	(2,057)
Effect of the adoption of IFRS 10 on assets	–	–	–	–	–	–	–	–	282	282
At 1 January 2012	(150)	121	(489)	400	431	261	1,493	506	471	3,044
Income statement	60	(49)	(30)	(185)	86	(134)	130	401	(120)	159
Other comprehensive income	–	(67)	(146)	321	–	–	–	(12)	(6)	90
Other movements	23	(11)	4	5	(60)	(22)	13	(37)	14	(71)
	(67)	(6)	(661)	541	457	105	1,636	858	359	3,222
Assets	158	61	53	542	457	105	1,636	858	1,190	5,060
Liabilities	(225)	(67)	(714)	(1)	–	–	–	–	(831)	(1,838)
At 31 December 2012	(67)	(6)	(661)	541	457	105	1,636	858	359	3,222

The table above shows movements on deferred tax assets and liabilities during the year. The amounts are different from those disclosed on the balance sheet as they are presented before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

The increase in the net deferred tax asset in respect of fixed asset timing differences was primarily due to an election for US tax purposes to capitalise costs associated with certain fixed assets. Other movements include deferred tax amounts relating to acquisitions, disposals and exchange gains and losses.

The amount of deferred tax liability expected to be settled after more than 12 months is £916m (2012: £1,337m). The amount of deferred tax asset expected to be recovered after more than 12 months is £4,943m (2012: £3,537m). These amounts are before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax

Deferred tax assets have not been recognised in respect of gross deductible temporary differences of £1,096m (2012: £28m), gross tax losses of £10,897m (2012: £7,295m) which includes capital losses of £3,465m (2012: £3,358m), and unused tax credits of £245m (2012: £155m). Tax losses of £245m (2012: £3m) expire within 5 years, £93m (2012: £83m) expire within 6 to 10 years, £1,043m (2012: £5m) expire within 11 to 20 years and £9,516m (2012: £7,204m) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which the Group can utilise benefits.

Deferred tax is not recognised in respect of the Group's investments in subsidiaries and branches where remittance is not contemplated and for those associates and interests in joint ventures where it has been determined that no additional tax will arise. The aggregate amount of temporary differences for which deferred tax liabilities have not been recognised is £534m (2012: £836m).

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Note 10: Tax continued

Critical accounting estimates and judgements

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open tax returns with various tax authorities to whom we are in active dialogue. Liabilities relating to these open and judgemental matters are based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

 Deferred tax assets have been recognised based on business profit forecasts. Further detail on the recognition of deferred tax assets is provided on page 295 in the deferred tax assets and liabilities section of this tax note.

Note 11: Earnings per share

	2013 £m	2012 £m	2011 £m
Profit/(loss) attributable to equity holders of parent from continuing operations	540	(624)	2,924
Dilutive impact of convertible options	1	–	–
Profit/(loss) attributable to equity holders of parent from continuing operations including dilutive impact of convertible options	541	(624)	2,924
	2013 million	2012 million	2011 million
Basic weighted average number of shares in issue^a	14,308	13,045	12,792
Number of potential ordinary shares	360	389	538
Diluted weighted average number of shares	14,668	13,434	13,330
	Basic earnings per share		
	2013 p	2012 p	2011 p
Earnings/(loss) per ordinary share from continuing operations	3.8	(4.8)	22.9
	Diluted earnings per share ^b		
	2013 p	2012 p	2011 p
Earnings/(loss) per ordinary share from continuing operations	3.7	(4.8)	21.9

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent and the number of basic weighted average number of shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held in respect of Barclays PLC, totalling 360 million (2012: 389 million) shares. In addition, the profit attributable to equity holders of the parent is adjusted for the dilutive impact of the potential conversion of outstanding options held in respect of Barclays Africa Group Limited. The decrease in the number of potential ordinary shares is primarily driven by the impact of the increase in the average share price to £2.73 (2012: £2.14) on the 756 million (2012: 820 million) outstanding options granted under employee share schemes, which have strike prices ranging from £1.30 to £4.59 with an average of £2.60 (2012: £3.28).

Of the total number of employee share options and share awards at 31 December 2013, 16 million were anti-dilutive (2012: 145 million).

Note 12: Dividends on ordinary shares

The Directors have approved a final dividend in respect of 2013 of 3.5p per ordinary share of 25p each which will be paid on 28 March 2014 to shareholders on the Share Register on 21 February 2014. At this date ordinary shares in issue were 16,351m (2012: 12,624m). The financial statements for the year ended 31 December 2013 do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2014. The 2013 financial statements include the 2013 interim dividends of £418m (2012: £367m) and final dividend declared in relation to 2012 of £441m (2011: £366m).

Notes

- a The basic weighted average number of shares excludes Treasury shares held in employee benefit trusts or held for trading. The rights issue in October 2013 resulted in the issue of an additional 3,219m shares. In accordance with IAS 33, a retrospective adjustment has been applied to the basic weighted average number of shares in issue for the prior periods which has resulted in a movement from a loss per share of 5.1p to a loss per share of 4.8p in 2012 and from an earnings per share of 24.4p to an earnings per share of 22.9p in 2011.
- b Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would increase loss per share.

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Assets and liabilities held at fair value

The notes included in this section focus on assets and liabilities the Group holds and recognises at fair value. Fair value refers to the price that would be received to sell an asset or the price that would be paid to transfer a liability in an arms length transaction with a willing counterparty, which may be an observable market price or, where there is no quoted price for the instrument, may be an estimated price based on available market data. Detail regarding the Group's approach to managing market risk can be found on pages 405 to 414.

Note 13: Trading portfolio**Accounting for trading portfolio assets and liabilities**

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value taken to the income statement net trading income (Note 5).

	Trading portfolio assets		Trading portfolio liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Debt securities and other eligible bills	84,560	116,307	(40,445)	(36,742)
Equity securities	42,659	24,519	(12,947)	(7,979)
Traded loans	1,647	2,410	—	—
Commodities	4,203	3,116	(72)	(73)
Trading portfolio assets/(liabilities)	133,069	146,352	(53,464)	(44,794)

Note 14: Financial assets designated at fair value**Accounting for financial assets designated at fair value**

In accordance with IAS 39, financial assets may be designated at fair value, with gains and losses taken to the income statement in net trading income (Note 5) and net investment income (Note 6). The Group has the ability to make the fair value designation when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 15).

	2013 £m	2012 £m
Loans and advances	18,695	21,996
Debt securities	842	6,975
Equity securities	11,824	9,017
Reverse repurchase agreements	5,323	6,034
Customers' assets held under investment contracts	1,606	1,378
Other financial assets	678	1,229
Financial assets designated at fair value	38,968	46,629

The total portfolio of linked liabilities to customers under investment contracts also includes £0.1bn (2012: £0.2bn) reported within cash and balances at central banks. The carrying value of the total portfolio assets equals the carrying value of liabilities to customers under investment contracts shown in Note 17. Any change in the value of assets results in an equal but opposite change in the value of amounts due to the policyholders. Therefore, the Group is not exposed to the financial risks inherent in the investments.

Credit risk of loans and advances designated at fair value and related credit derivatives

The following table shows the maximum exposure to credit risk, the changes in fair value attributable to changes in credit risk and the cumulative changes in fair value since initial recognition together with the amount by which related credit derivatives mitigate this risk:

	Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Loans and advances designated at fair value, attributable to credit risk	18,695	21,996	95	178	(4,797)	(4,892)
Value mitigated by related credit derivatives	914	1,342	49	(6)	444	395

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Note 15: Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are discussed in the Risk management section on pages 402 and 403. Trading derivatives are managed within the Group's Market risk management policies, which are outlined on pages 405 to 414.

 The Group's exposure to credit risk arising from derivative contracts are outlined in the Credit risk section on pages 179 and 180

Accounting for derivatives

The Group applies IAS 39. All derivative instruments are held at fair value through profit or loss, except for derivatives held for risk management purposes in an effective hedge relationship (see hedge accounting below). This includes terms included in a contract or other financial asset or liability (the host), which, had it been a standalone contract, would have had met the definition of a derivative. These are separated from the host and accounted for in the same way as a derivative.

Hedge accounting

The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions. Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value changes adjust the carrying value of the hedged asset or liability held at amortised cost.

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Hedges of net investments

The Group's net investments in foreign operations, including monetary items accounted for as part of the net investment, are hedged for foreign currency risks using both derivatives and foreign currency borrowings. Hedges of net investments are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is being recognised directly in other comprehensive income and the ineffective portion being recognised immediately in the income statement. The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation, or other reductions in the Group's investment in the operation.

Types of derivatives held

Foreign exchange derivatives

The Group's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Currency derivatives are primarily designated as hedges of the foreign currency risk of net investments in foreign operations.

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Note 15: Derivative financial instruments continued**Interest rate derivatives**

The Group's principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers and investments in fixed rate debt securities held.

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency. A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options whose underlyings include mutual funds, hedge funds, indices and multi-asset portfolios.

Commodity derivatives

The Group's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

The Group's total derivative asset and liability position as reported on the balance sheet is as follows:

Total derivatives	2013			2012		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Asset £m	Liabilities £m		Assets £m	Liabilities £m
Total derivative assets/(liabilities) held for trading	41,494,363	321,590	(319,361)	40,193,114	465,357	(459,587)
Total derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	302,822	3,799	(3,134)
Derivative assets/(liabilities)	41,798,008	324,335	(320,634)	40,495,936	469,156	(462,721)

The fair value of gross derivative assets decreased by 31% to £324bn reflecting increases in the major interest rate forward curves and the impact of optimisation initiatives to reduce gross derivative exposures. Further information on netting of derivative financial instruments is included within Note 19 Offsetting financial assets and financial liabilities.

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Note 15: Derivative financial instruments continued

The fair values and notional amounts of derivative instruments held for trading are set out in the following table:

Derivatives held for trading						
	2013			2012		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Asset £m	Liabilities £m		Assets £m	Liabilities £m
Foreign exchange derivatives						
Forward foreign exchange	2,482,144	25,504	(29,825)	2,421,109	25,670	(26,665)
Currency swaps	1,287,911	27,138	(27,855)	1,277,523	28,007	(31,456)
OTC options bought and sold	815,742	6,858	(6,977)	604,777	5,581	(5,663)
OTC derivatives	4,585,797	59,500	(64,657)	4,303,409	59,258	(63,784)
Foreign exchange derivatives cleared by central counterparty	3,368	–	–	9,139	41	(37)
Exchange traded futures and options – bought and sold	44,295	–	–	111,189	–	–
Foreign exchange derivatives	4,633,460	59,500	(64,657)	4,423,737	59,299	(63,821)
Interest rate derivatives						
Interest rate swaps	7,497,699	164,532	(151,499)	6,676,588	264,838	(249,566)
Forward rate agreements	601,123	750	(719)	3,757,855	1,521	(1,483)
OTC options bought and sold	3,909,340	49,827	(50,087)	4,378,143	84,844	(85,517)
OTC derivatives	12,008,162	215,109	(202,305)	14,812,586	351,203	(336,566)
Interest rate derivatives cleared by central counterparty	21,377,621	1,069	(955)	17,103,792	172	(58)
Exchange traded futures and options – bought and sold	962,133	–	–	1,079,453	6	(1)
Interest rate derivatives	34,347,916	216,178	(203,260)	32,995,831	351,381	(336,625)
Credit derivatives						
OTC swaps	1,270,020	21,922	(21,633)	1,529,984	29,788	(29,198)
Credit derivatives cleared by central counterparty	306,164	1	(1)	238,196	9	(10)
Credit derivatives	1,576,184	21,923	(21,634)	1,768,180	29,797	(29,208)
Equity and stock index derivatives						
OTC options bought and sold	76,145	7,880	(11,227)	88,317	6,133	(9,403)
Equity swaps and forwards	86,497	2,046	(3,455)	74,098	1,762	(2,420)
OTC derivatives	162,642	9,926	(14,682)	162,415	7,895	(11,823)
Exchange traded futures and options – bought and sold	332,438	3,423	(4,265)	347,965	3,092	(3,192)
Equity and stock index derivatives	495,080	13,349	(18,947)	510,380	10,987	(15,015)
Commodity derivatives						
OTC options bought and sold	62,564	1,527	(1,369)	81,787	1,786	(1,987)
Commodity swaps and forwards	141,287	8,570	(8,813)	164,771	11,441	(12,315)
OTC derivatives	203,851	10,097	(10,182)	246,558	13,227	(14,302)
Exchange traded futures and options – bought and sold	237,872	543	(681)	248,428	666	(616)
Commodity derivatives	441,723	10,640	(10,863)	494,986	13,893	(14,918)
Derivative assets/(liabilities) held for trading	41,494,363	321,590	(319,361)	40,193,114	465,357	(459,587)
Total OTC derivatives held for trading	18,230,472	316,554	(313,459)	21,054,952	461,371	(455,673)
Total derivatives cleared by central counterparty held for trading	21,687,153	1,070	(956)	17,351,127	222	(105)
Total Exchange Traded derivatives held for trading	1,576,738	3,966	(4,946)	1,787,035	3,764	(3,809)
Derivative assets/(liabilities) held for trading	41,494,363	321,590	(319,361)	40,193,114	465,357	(459,587)

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Note 15: Derivative financial instruments continued

The fair values and notional amounts of derivative instruments held for risk management are set out in the following table:

Derivatives held for risk management	2013			2012		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
		Asset	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives designated as cash flow hedges						
Interest rate swaps	74,854	844	(484)	97,935	2,043	(1,094)
Forward foreign exchange	851	55	(16)	148	—	(3)
Interest rate derivatives cleared by central counterparty	85,104	—	—	79,039	—	—
Derivatives designated as cash flow hedges	160,809	899	(500)	177,122	2,043	(1,097)
Derivatives designated as fair value hedges						
Interest rate swaps	39,964	1,278	(752)	44,031	1,576	(1,984)
Interest rate derivatives cleared by central counterparty	83,495	—	—	64,209	—	—
Derivatives designated as fair value hedges	123,459	1,278	(752)	108,240	1,576	(1,984)
Derivatives designated as hedges of net investments						
Forward foreign exchange	19,377	568	(21)	17,460	180	(53)
Derivatives designated as hedges of net investments	19,377	568	(21)	17,460	180	(53)
Derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	302,822	3,799	(3,134)
Total OTC derivatives held for risk management	135,046	2,745	(1,273)	159,574	3,799	(3,134)
Total derivatives cleared by central counterparty held for risk management	168,599	—	—	143,248	—	—
Derivative assets/(liabilities) held for risk management	303,645	2,745	(1,273)	302,822	3,799	(3,134)

The Group has hedged the following forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

	Total	Up to	Between	Between	Between	Between	More than
	£m	one year	one to	two to	three to	four to	five years
	£m	£m	£m	£m	£m	£m	£m
2013							
Forecast receivable cash flows	6,438	367	500	904	1,126	1,135	2,406
Forecast payable cash flows	1,095	231	128	701	12	14	9
2012							
Forecast receivable cash flows	2,417	345	333	353	354	350	682
Forecast payable cash flows	54	31	18	4	—	1	—

Forecast receivable cash flows on floating rate assets have increased year on year due to significant increases in forward interest rate curves.

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions, excluding those forecast transactions related to the payment of variable interest on existing financial instruments is 10 years (2012: 9 years).

Amounts recognised in net interest income		
	2013	2012
	£m	£m
Losses on the hedged items attributable to the hedged risk	(591)	(74)
Gains on the hedging instruments	773	114
Fair value ineffectiveness	182	40
Cash flow hedging ineffectiveness	(76)	30

All gains and losses on hedging derivatives relating to forecast transactions which are no longer expected to occur have been recycled to the income statement.

Gains and losses transferred from the cash flow hedging reserve in the current year to interest income was a £66m gain (2012: £97m gain); interest expense a £554m gain (2012: £571m gain); net trading income a £44m loss (2012: £48m loss); administration and general expenses a £5m loss (2012: £1m gain); and taxation a £62m loss (2012: nil).

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Note 16: Available for sale financial assets
Accounting for available for sale investments

Available for sale investments are held at fair value with gains and losses being included in other comprehensive income. The Group uses this classification for assets that are not derivatives and are not held for trading purposes or otherwise designated at fair value through profit or loss, or at amortised cost. Dividends and interest (calculated using the effective interest method) are recognised in the income statement in net interest income (Note 3) or, net investment income (Note 6). On disposal, the cumulative gain or loss recognised in other comprehensive income is also included in net investment income.

	2013 £m	2012 £m
Debt securities and other eligible bills	91,298	74,671
Equity securities	458	438
Available for sale investments	91,756	75,109

Critical accounting estimates and judgements

Approximately \$4.3bn (£2.6bn) of the assets acquired as part of the 2008 acquisition of the North American business of Lehman Brothers had not been received by 31 December 2013. Approximately \$2.7bn (£1.6bn) of this amount was recognised as part of the acquisition accounting and is included as an available for sale investment on the balance sheet. As discussed in Note 30, Barclays entitlement to these assets is the subject of legal proceedings between the SIPA Trustee for Lehman Brothers Inc. and Barclays. As such, there continues to be significant judgement involved in the valuation of this asset and uncertainty relating to the outcome of ongoing appeals. The Group takes the view that the effective provision of \$1.6bn (£1.0bn) that is reflected in its estimate of fair value is appropriate. The valuation of this asset will be kept under review as legal proceedings progress.

Note 17: Financial liabilities designated at fair value
Accounting for liabilities designated at fair value through profit and loss

In accordance with IAS 39, financial liabilities may be designated at fair value, with gains and losses taken to the income statement within net trading income (Note 5) and net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 15).

	2013		2012	
	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m
Debt securities	49,244	52,306	57,878	59,754
Deposits	8,071	9,161	11,411	13,064
Liabilities to customers under investment contracts	1,705	—	1,542	—
Repurchase agreements	5,306	5,331	6,020	6,038
Other financial liabilities	470	470	1,710	1,710
Financial liabilities designated at fair value	64,796	67,268	78,561	80,566

The cumulative own credit net loss recognised is £1,199m at 31 December 2013 (2012: £979m loss).

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For the year ended 31 December 2013 continued

Note 18: Fair value of assets and liabilities**Accounting for financial assets and liabilities – fair values**

The Group applies IAS 39 – Financial Instruments: Recognition and Measurement. All financial instruments are initially recognised at fair value on the date of recognition and, depending on the classification of the asset, may continue to be held at fair value either through profit or loss or other comprehensive income. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of the Group's financial assets and liabilities, especially derivatives, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities held at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Barclays issued bonds or credit default swaps. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of unobservable inputs, the difference between the model valuation and the initial transaction price ('Day One profit') is recognised in profit or loss either: on a straight-line basis over the term of the transaction; or over the period until all model inputs will become observable where appropriate; or released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependant on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

The sensitivity of valuations used in the financial statements to reasonably possible changes in significant unobservable inputs is shown on page 315.

Valuation

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

Valuation technique using significant unobservable inputs – Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

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Note 18: Fair value of assets and liabilities continued

The following table shows the Group's assets and liabilities that are held at fair value disaggregated by valuation technique (fair value hierarchy) and balance sheet classification:

	Valuation technique using			Total £m
	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	
As at 31 December 2013				
Trading portfolio assets	54,363	72,285	6,421	133,069
Financial assets designated at fair value	11,188	9,010	18,770	38,968
Derivative financial assets	3,353	315,969	5,013	324,335
Available for sale investments	36,050	53,561	2,145	91,756
Investment property	—	—	451	451
Non current assets held for sale	—	—	114	114
Total assets	104,954	450,825	32,914	588,693
Trading portfolio liabilities	(29,450)	(24,014)	—	(53,464)
Financial liabilities designated at fair value	(98)	(63,058)	(1,640)	(64,796)
Derivative financial liabilities	(3,952)	(312,363)	(4,319)	(320,634)
Total Liabilities	(33,500)	(399,435)	(5,959)	(438,894)
As at 31 December 2012				
Trading portfolio assets	51,639	86,199	8,514	146,352
Financial assets designated at fair value	14,518	26,025	6,086	46,629
Derivative financial assets	2,863	460,076	6,217	469,156
Available for sale investments	28,949	43,280	2,880	75,109
Investment property	—	—	1,686	1,686
Non current assets held for sale	—	—	—	—
Total assets	97,969	615,580	25,383	738,932
Trading portfolio liabilities	(20,294)	(24,498)	(2)	(44,794)
Financial liabilities designated at fair value	(182)	(76,024)	(2,355)	(78,561)
Derivative financial liabilities	(2,666)	(455,068)	(4,987)	(462,721)
Total Liabilities	(23,142)	(555,590)	(7,344)	(586,076)

There are no assets or liabilities measured at fair value on a non-recurring basis.

Included in financial assets designated at fair value is the Education, Social Housing and Local Authority (ESHLA) loan portfolio of £15.6bn (2012: £17.6bn). This was transferred from Level 2 to Level 3 following reassessment of the significance of unobservable loan spreads on valuation. The valuation of the ESHLA portfolio continues to be based on internally modelled spreads. Valuation uncertainty arises mainly from the long dated nature of the portfolio, the lack of active secondary market in the loans and the lack of observable loan spreads.

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For the year ended 31 December 2013 continued

Note 18: Fair value of assets and liabilities continued

The following table shows the Group's assets and liabilities that are held at fair value disaggregated by valuation technique (fair value hierarchy) and product type:

	Assets			Liabilities		
	Valuation technique using			Valuation technique using		
	Quoted	Observable	Significant	Quoted	Observable	Significant
	market prices (Level 1) £m	inputs (Level 2) £m	unobservable inputs (Level 3) £m	market prices (Level 1) £m	inputs (Level 2) £m	unobservable inputs (Level 3) £m
As at 31 December 2013						
Interest rate derivatives	–	217,324	1,031	–	(203,466)	(1,046)
Foreign exchange derivatives	–	59,951	117	–	(64,592)	(86)
Credit derivatives ^a	–	19,723	2,200	–	(20,828)	(780)
Equity derivatives	3,353	8,730	1,266	(3,926)	(13,154)	(1,867)
Commodity derivatives	–	10,241	399	–	(10,323)	(540)
Government and government sponsored debt	53,518	63,627	220	(17,833)	(17,758)	–
Corporate debt	1,005	34,247	3,040	(63)	(5,247)	(12)
Certificates of deposit, commercial paper and other money market instruments	–	1,493	–	(96)	(5,303)	(409)
Reverse repurchase and repurchase agreements	–	5,323	–	–	(5,306)	–
Non asset backed loans	–	2,493	16,132	–	–	–
Asset backed securities	–	15,141	2,112	–	(105)	–
Commercial real estate loans	–	–	1,198	–	–	–
Issued debt	–	54	1	–	(48,734)	(1,164)
Equity cash products	45,547	397	168	(11,554)	(704)	–
Funds and fund-linked products	–	8,509	550	–	(3,369)	(54)
Physical commodities	1,155	3,048	–	–	(72)	–
Investment properties	–	–	451	–	–	–
Other ^b	376	524	4,029	(2)	(474)	(1)
Total	104,954	450,825	32,914	(33,500)	(399,435)	(5,959)
As at 31 December 2012						
Interest rate derivatives	–	353,647	1,353	–	(338,502)	(1,204)
Foreign exchange derivatives	1	59,275	203	–	(63,630)	(244)
Credit derivatives ^a	–	26,758	3,039	–	(28,002)	(1,206)
Equity derivatives	2,851	6,281	1,092	(2,626)	(10,425)	(1,702)
Commodity derivatives	12	13,984	660	(5)	(14,632)	(543)
Government and government sponsored debt	65,598	60,336	367	(13,098)	(20,185)	–
Corporate debt	844	28,640	3,339	(130)	(3,312)	(36)
Certificates of deposit, commercial paper and other money market instruments	203	5,443	–	(5)	(7,840)	(760)
Reverse repurchase and repurchase agreements	–	6,034	–	–	(6,020)	–
Non asset backed loans	21	19,666	2,365	(2)	(3)	–
Asset backed securities	17	26,787	4,106	(2)	(831)	–
Commercial real estate loans	–	–	1,798	–	–	–
Issued debt	–	–	–	–	(57,303)	(1,439)
Equity cash products	26,992	2,855	145	(7,236)	(1,111)	–
Funds and fund-linked products	737	2,447	754	(38)	(2,000)	(122)
Physical commodities	678	2,438	–	–	(73)	–
Investment properties	–	–	1,686	–	–	–
Other ^b	15	989	4,476	–	(1,721)	(88)
Total	97,969	615,580	25,383	(23,142)	(555,590)	(7,344)

Notes

^a Credit derivatives includes derivative exposure to Monoline insurers.

^b Other primarily includes receivables resulting from the acquisition of the North American businesses of Lehman Brothers, asset-backed loans, private equity investments and non current assets held for sale.

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Note 18: Fair value of assets and liabilities continued
Assets and liabilities reclassified between Level 1 and Level 2

US Treasuries and new issuances of certain G7 government bonds are actively quoted and traded through electronic trading platforms, supporting classification as Level 1. When there is a new issuance of those G7 government bonds, any previous issuances held on the balance sheet as Level 1 will be transferred into Level 2 to reflect a decrease in trading activity. As a result of new issuances during the year, £19.6m of government and government-sponsored debt were transferred from Level 1 into Level 2. Remaining transfers from level 1 to level 2 relate to the transfer of £14.1m of corporate debt as a result of a reassessment of available pricing information causing the classification to be reconsidered as level 2.

Transfers have been reflected as if they had taken place at the beginning of the year.

Level 3 movement analysis

The following table summarises the movements in the Level 3 balance during the year. The table shows gains and losses and includes amounts for all assets and liabilities transferred to and from Level 3 during the year. Transfers have been reflected as if they had taken place at the beginning of the year.

Analysis of movements in level 3 assets and liabilities

	As at 1 January 2013	Purchases	Sales	Issues	Settlements	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI	Transfers		As at 31 December 2013
	£m	£m	£m	£m	£m	Trading income £m	Other income £m	£m	In £m	Out £m	£m
Government and government sponsored debt	321	135	(199)	82	(23)	(3)	(11)	—	—	(141)	161
Corporate debt	3,136	84	(83)	—	—	(46)	—	—	—	(52)	3,039
Asset backed securities	3,614	2,773	(4,729)	—	(389)	831	—	—	50	(39)	2,111
Non asset backed loans	344	91	(281)	35	(37)	16	—	—	8	—	176
Funds and fund-linked products	685	—	(64)	—	—	(95)	—	—	—	(32)	494
Other	414	46	(42)	—	(44)	44	—	—	34	(12)	440
Trading portfolio assets	8,514	3,129	(5,398)	117	(493)	747	(11)	—	92	(276)	6,421
Commercial real estate loans	1,798	1,542	(1,717)	—	(526)	156	2	—	2	(59)	1,198
Non asset backed loans	2,021	390	(1)	—	(208)	(1,441)	(107)	—	15,317	(15)	15,956
Asset backed loans	564	595	(748)	—	(23)	106	—	—	—	(119)	375
Private equity investments	1,350	161	(134)	—	(87)	50	(139)	—	18	(51)	1,168
Other	353	11	(237)	—	(28)	(36)	(1)	—	105	(94)	73
Financial assets designated at fair value	6,086	2,699	(2,837)	—	(872)	(1,165)	(245)	—	15,442	(338)	18,770
Asset backed securities	492	—	(521)	—	(29)	(1)	30	30	—	—	1
Government and government sponsored debt	46	13	—	—	(1)	—	1	—	—	—	59
Other	2,342	25	(77)	—	(471)	1	255	2	36	(28)	2,085
Available for sale investments	2,880	38	(598)	—	(501)	—	286	32	36	(28)	2,145
Investment property	1,686	151	(1,210)	—	—	17	(31)	—	—	(162)	451
Non current assets held for sale	—	—	—	—	—	—	—	—	114	—	114

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Note 18: Fair value of assets and liabilities continued**Analysis of movements in level 3 assets and liabilities continued**

	As at 1 January 2013 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2013 £m
						Trading income £m	Other income £m		In £m	Out £m	
Trading portfolio liabilities	(2)	(1)	–	–	–	1	–	–	–	2	–
Certificates of deposit, commercial paper and other money market instruments	(760)	–	–	–	7	204	93	–	–	47	(409)
Issued debt	(1,439)	–	9	(67)	319	60	6	–	(205)	153	(1,164)
Other	(156)	(2)	1	–	(2)	(3)	3	–	–	92	(67)
Financial liabilities designated at fair value	(2,355)	(2)	10	(67)	324	261	102	–	(205)	292	(1,640)
Interest rate derivatives	149	(26)	(1)	–	31	262	2	–	(26)	(406)	(15)
Credit derivatives	1,776	95	(66)	(2)	54	(488)	(81)	–	(74)	206	1,420
Equity derivatives	(608)	301	(1)	(394)	(48)	151	2	–	(85)	81	(601)
Commodity derivatives	117	(57)	–	(44)	42	66	1	–	(146)	(120)	(141)
Foreign exchange derivatives	(40)	–	–	–	145	(44)	1	–	(10)	(21)	31
Other	(164)	–	–	–	–	–	–	–	–	164	–
Net derivative financial instruments^a	1,230	313	(68)	(440)	224	(53)	(75)	–	(341)	(96)	694
Total	18,039	6,327	(10,101)	(390)	(1,318)	(192)	26	32	15,138	(606)	26,955

Analysis of movements in level 3 assets and liabilities

	As at 1 January 2013 £m	Effects of the adoption of IFRS 10 £m	Purchases £m	Sales £m	Issues £m	Settlements £m	Total gains and losses in the period recognised in the income statement		Total gains or losses recognised in OCI £m	Transfers		As at 31 December 2012 £m
							Trading income £m	Other income £m		In £m	Out £m	
Trading portfolio assets	9,204	1,093	3,443	(4,445)	–	(986)	476	(7)	–	242	(506)	8,514
Financial assets designated at fair value	8,679	143	2,972	(3,837)	–	(915)	(236)	(5)	–	167	(882)	6,086
Available for sale investments	2,873	–	50	(226)	–	(57)	(17)	–	(19)	461	(185)	2,880
Investment property	2,925	–	70	(1,289)	–	–	35	(55)	–	–	–	1,686
Trading portfolio liabilities	(6)	–	(1)	1	–	1	–	–	–	–	3	(2)
Financial liabilities designated at fair value	(3,136)	(136)	(8)	29	(289)	450	87	52	–	(295)	891	(2,355)
Net derivative financial instruments ^a	2,686	(9)	434	(138)	(354)	5	(1,438)	(109)	–	(189)	342	1,230
Total	23,225	1,091	6,960	(9,905)	(643)	(1,502)	(1,093)	(124)	(19)	386	(337)	18,039

Notes

a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2013 totalled £5,013m (2012: £6,217m) and derivative financial liabilities totalled £4,319m (2012: £4,987m).

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Note 18: Fair value of assets and liabilities continued

Assets and liabilities move between Level 2 and Level 3 primarily due to i) an increase or decrease in observable market activity related to an input or ii) a change in the significance of the unobservable input, with assets and liabilities classified as Level 3 if an unobservable input is deemed significant.

During 2013, transfers into Level 3 totalled £15.1bn primarily due to the remainder of the ESHLA loan portfolio amounting to £15.3bn, which was transferred from Level 2 to Level 3 following reassessment of the significance of unobservable loan spreads on valuation. Liabilities of £205m were also transferred from Level 2 to Level 3 mainly representing issued debt classified as financial liabilities designated at fair value. A further £(146)m of commodity derivatives were also transferred into level 3 in line with observable market activity.

Transfers out of Level 3 totalled £606m. This was primarily due to £141m of government and government sponsored debt held as trading portfolio assets and £119m of asset backed loans held as financial assets designated at fair value through profit and loss. Liabilities transferred out included £153m of issued debt and £47m of certificates of deposit, commercial paper and other money market instruments both designated as held at fair value through profit and loss. There were also transfers of £(406)m in interest rate derivatives offset by £206m in credit derivatives as a result of more observable valuation inputs.

Unrealised gains and losses on Level 3 financial assets and liabilities

The following table discloses the unrealised gains and losses recognised in the year arising on Level 3 assets and liabilities held at year end.

	2013				2012			
	Income statement		Other comprehensive	Total	Income statement		Other comprehensive	Total
	Trading income	Other income			Trading income	Other income		
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Trading portfolio assets	222	–	–	222	186	(7)	–	179
Financial assets designated at fair value	(1,276)	10	–	(1,266)	(174)	(2)	–	(176)
Available for sale assets	–	(5)	27	22	(3)	(11)	67	53
Investment property	(27)	(31)	–	(58)	14	(28)	–	(14)
Trading portfolio liabilities	–	–	–	–	(1)	–	–	(1)
Financial liabilities designated at fair value	74	–	–	74	39	63	–	102
Net derivative financial instruments	(411)	(75)	–	(486)	(1,747)	(61)	–	(1,808)
Total	(1,418)	(101)	27	(1,492)	(1,686)	(46)	67	(1,665)

The decrease in trading income of £1,102m within financial assets designated at fair value is primarily driven by a trading loss on the ESHLA loan portfolio due to losses incurred on fixed rate loan portfolios as a result of an increase in interest rate forward curves. Trading income on net derivative financial instruments increased by £1,336m over the year mainly driven by more favourable returns on derivatives. Credit and monoline derivatives within the Structured Capital Portfolio Markets business resulted in an increase in trading income of £461m compared to prior year. Additionally, within rates trading, interest rate derivatives drove a £247m increase in trading income; whilst equity derivatives also had a positive variance of £235m over prior year.

Valuation techniques and sensitivity analysis

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historical data and the impact of using alternative models.

Sensitivities are dynamically calculated on a monthly basis. The calculation is based on range or spread data of a reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

The valuation techniques used for the main products that are not determined by reference to unadjusted quoted prices (Level 1), observability and sensitivity analysis for Level 3 are described below.

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Note 18: Fair value of assets and liabilities continued

Interest rate derivatives

Description: These are derivatives linked to interest rates or inflation indices. This category includes futures, interest rate and inflation swaps, swaptions, caps, floors, inflation options, balance guaranteed swaps and other exotic interest rate derivatives.

Valuation: Interest rate derivative cash flows are valued using interest rate yield curves whereby observable market data is used to construct the term structure of forward rates. This is then used to project and discount future cash flows based on the parameters of the trade. Assets and liabilities with optionality are valued using volatilities implied from market observable inputs. Exotic interest rate derivatives are valued using industry standard and bespoke models based on observable and unobservable market parameter inputs. Input parameters include interest rates, volatilities, correlations and others as appropriate. Where unobservable, a parameter will be set with reference to an observable proxy. Inflation forward curves and interest rate yield curves are extrapolated beyond observable tenors.

Balance guaranteed swaps are valued using cash flow models that calculate fair value based on loss projections, prepayment, recovery and discount rates. These parameters are determined by reference to underlying asset performance, independent research, ABX indices, broker quotes, observable trades on similar securities and third party pricing sources. Prepayment is projected based on observing historic prepayment rates.

Observability: In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying. Certain correlation, convexity, long dated forwards and volatilities exposures are unobservable beyond liquid maturities. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Level 3 sensitivity: Sensitivity relating to unobservable valuation inputs is based on the dispersion of consensus data services where available, otherwise stress scenarios or historic data are used.

Foreign exchange derivatives

Description: These are derivatives linked to the foreign exchange (FX) market. This category includes FX forward contracts, FX swaps and FX options. The vast majority are traded as OTC derivatives.

Valuation: Derivatives are valued using industry standard and bespoke models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Observability: Certain correlations, long dated forwards and volatilities are unobservable beyond liquid maturities.

Level 3 sensitivity: Sensitivity relating to unobservable valuation inputs is primarily based on the dispersion of consensus data services.

Credit derivatives

Description: These are derivatives linked to the credit spread of a referenced entity, index or basket of referenced entities or a pool of referenced assets via securitisation. This category includes single name and index Credit Default Swaps (CDS), asset backed CDS, synthetic Collateralised Debt Obligations (CDOs), and Nth-to-default basket swaps.

Valuation: CDS are valued using a market standard model that incorporates the credit curve as its principal input. Credit spreads are observed directly from broker data, third party vendors or priced to proxies. Where credit spreads are unobservable, they are determined with reference to recent transactions or proxied from bond spreads on observable trades of the same issuer or other similar entities. Synthetic CDOs are valued using a model that calculates fair value based on credit spreads, recovery rates, correlations and interest rates and is calibrated to the index tranche market.

Observability: CDS contracts referencing entities that are not actively traded are considered unobservable. The correlation input to synthetic CDO valuation is considered unobservable as it is proxied from the observable index tranche market. Where an asset-backed credit derivative does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity of valuations of the illiquid CDS portfolio is determined by applying a shift to each spread curve. The shift is based on the average range of pricing observed in the market for similar CDS.

Synthetic CDO sensitivity is calculated using correlation levels derived from the range of contributors to a consensus bespoke service.

Commodity derivatives

Description: These products are exchange traded and OTC derivatives based on underlying commodities such as metals, crude oil and refined products, agricultural products, power and natural gas.

Valuation: The valuations of commodity swaps and options are determined using models incorporating discounting of cash flows and other industry standard modelling techniques. Valuation inputs include forward curves, volatilities implied from market

observable inputs and correlations. Unobservable inputs are set with reference to similar observable products or by applying extrapolation techniques from the observable market.

Observability: Certain correlations, forward curves and volatilities for longer dated exposures are unobservable.

Level 3 sensitivity: Sensitivity is determined primarily by measuring historical variability over two years. Where historical data is unavailable or uncertainty is due to volumetric risk, sensitivity is measured by applying appropriate stress scenarios or using proxy bid-offer spread levels.

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Note 18: Fair value of assets and liabilities continued

Equity derivatives

Description: These are derivatives linked to equity indices and single names. This category includes exchange traded and OTC equity derivatives including vanilla and exotic options.

Valuation: The valuations of OTC equity derivatives are determined using industry standard models. Input parameters include stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Observability: In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying.

Level 3 sensitivity: Sensitivity is estimated based on the dispersion of consensus data services either directly or through proxies.

Derivative exposure to monoline insurers

Description: These products are derivatives through which credit protection has been purchased on structured debt instruments (primarily CLOs) from monoline insurers.

Valuation: Given the bespoke nature of the CDS, the primary valuation input is the price of the cash instrument it protects.

Observability: Whilst the market value of the cash instrument underlying the CDS contract may be observable, its use in the valuation of CDS is considered unobservable due to the bespoke nature of the monoline CDS contracts.

Level 3 sensitivity: Due to the high degree of uncertainty, the sensitivity reflects the impact of writing down the credit protection element of fair value to zero.

Government and Government sponsored debt

Description: These are government bonds, supra sovereign bonds and agency bonds.

Valuation: Liquid government bonds actively traded through an exchange or clearing house are marked to the closing levels observed in these markets. Less liquid bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts.

Observability: Where an observable market price is not available, the bond is considered Level 3.

Level 3 sensitivity: Sensitivity is calculated by using the range of observable proxy prices.

Corporate debt

Description: This primarily contains corporate bonds.

Valuation: Corporate bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts. In the absence of observable bond or CDS spreads for the respective issuer, similar reference assets or sector averages are applied as a proxy (the appropriateness of proxies being assessed based on issuer, coupon, maturity and industry).

Observability: Where an observable market price is not available, the security is considered Level 3.

Level 3 sensitivity: The sensitivity for the corporate bonds portfolio is determined by applying a shift to each underlying position driven by average ranges of external levels observed in the market for similar bonds.

Certificates of Deposit, Commercial Paper and other money market instruments

Description: These are certificates of deposit, commercial paper and other money market instruments.

Valuation: Certificates of deposit and commercial paper are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts. In the absence of observable bond or CDS spreads for the respective issuer, similar reference assets or sector averages are applied as a proxy (the appropriateness of proxies being assessed based on issuer, coupon, maturity and industry).

Observability: Where an observable market price is not available, the instrument is considered Level 3.

Level 3 sensitivity: Sensitivity is calculated by using the range of observable proxy prices.

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Description: This product type is primarily made up of repurchase agreements that are held at fair value.

Valuation: Repurchase agreements are generally valued using industry standard modelling techniques including discounting of cash flows. The key valuation inputs are forward curves.

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Note 18: Fair value of assets and liabilities continued

Observability: Repurchase agreement pricing is generally observable.

Level 3 sensitivity: There is no Level 3 sensitivity associated with repurchase agreements as inputs to valuation are observable.

Non asset backed loans

Description: This category is largely made up of fixed rate loans, such as the ESHLA portfolio, which are valued using models that discount expected future cash flows.

Valuation: Fixed rate loans are valued using models that calculate fair value based on observable interest rates and unobservable loan spreads. Unobservable loan spreads are modelled according to issuer credit quality.

Observability: Within this population, the unobservable input is the loan spread.

Level 3 sensitivity: The sensitivity for fixed rate loans is calculated by applying a shift to loan spreads.

Asset backed securities

Description: These are securities that are linked to the cash flows of a pool of referenced assets via securitisation. This category includes residential mortgage backed securities, commercial mortgage backed securities, asset backed securities, CDOs and CLOs.

Valuation: Where available, valuations are based on observable market prices which are sourced from broker quotes and inter-dealer prices. Otherwise, valuations are determined using industry standard discounted cash flow analysis that calculates the fair value based on valuation inputs such as constant default rate, conditional prepayment rate, loss given default and yield. These inputs are determined by reference to a number of sources including proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance.

Proxying to observed transactions, indices or research requires an assessment and comparison of the relevant securities' underlying attributes including collateral, tranche, vintage, underlying asset composition (historical losses, borrower characteristics, and loan attributes such as loan-to-value ratio and geographic concentration) and credit ratings (original and current).

Observability: Where an asset backed product does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity analysis for asset backed products is based on externally sourced pricing dispersion, defined at the position level.

Asset backed loans

Description: These are loans made to individual borrowers or originators in return for the expectation of repayment of both principal and interest in the future. This category includes loans backed by residential whole loans and residential real estate (property).

Valuation: Valuations are determined using industry standard discounted cash flow analysis that calculates the fair value based on inputs such as constant default rate, conditional prepayment rate, loss given default and yield. Valuations inputs are determined by reference to a number of sources including proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance.

Observability: Where an asset backed loan does not have an observable market price and the valuation is determined using a model, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity analysis for asset backed loans is based on stressing the inputs to the discounted cash flow analysis.

Commercial Real Estate loans

Description: This portfolio includes loans that are secured by a range of commercial property types including retail, hotel, office, multi-family and industrial properties.

Valuation: Performing loans are valued using discounted cash flow analysis which considers the characteristics of the loan such as property type, geographic location, credit quality and property performance reviews in order to determine an appropriate credit spread. Where there is significant uncertainty regarding loan performance, valuation is based on independent third party appraisals or bids for the underlying properties. Independent third party appraisals are determined by discounted cash flow analysis. The key valuation inputs are yield and loss given default.

Observability: Since each commercial real estate loan is unique in nature and the secondary market for them is relatively illiquid, valuation inputs are generally considered unobservable.

Level 3 sensitivity: For performing loans, sensitivity is determined by stressing the credit spread for each loan. For loans which have significant uncertainty regarding loan performance, sensitivity is determined by either a range of bids or by stressing the inputs to independent third party appraisals.

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Note 18: Fair value of assets and liabilities continued

Issued debt

Description: This category contains Barclays issued notes.

Valuation: Fair valued Barclays issued notes are valued using discounted cash flow techniques and industry standard models incorporating various observable input parameters depending on the terms of the instrument.

Observability: Barclays issued notes are generally observable. Structured notes are debt instruments containing embedded derivatives. Where either an input to the embedded derivative or the debt instrument is deemed unobservable and significant to the overall valuation of the note, the structured note is classified as Level 3.

Level 3 sensitivity: Sensitivity to the unobservable input in the embedded derivative is calculated in line with the method used for the derivative instrument concerned and incorporated within the derivative lines.

Equity cash products

Description: This category includes listed equities, Exchange Traded Funds (ETF) and preference shares.

Valuation: Valuation of equity cash products is primarily determined through market observable prices.

Observability: Prices are generally observed in the market. Where a price for an equity security is not available, the instrument is considered unobservable.

Level 3 sensitivity: Sensitivity relating to unobservable market prices is based on the dispersion of observable proxy prices.

Funds and fund linked products

Description: This category includes holdings in hedge funds, and funds of funds.

Valuation: In general, fund holdings are valued based on the latest available valuation received from the fund administrator. In the case of illiquid fund holdings the valuation will take account of all available information in relation to the underlying fund or collection of funds and may be adjusted relative to the performance of relevant index benchmarks.

Observability: Funds are deemed unobservable where the fund is either suspended, in wind-down, has a redemption restriction that severely affects liquidity, or where the latest net asset value from the fund administrators is older than the frequency dictated by the fund offering documents.

Level 3 sensitivity: Sensitivity is calculated on an individual fund basis using a loss based scenario approach which factors in the underlying assets of the specific fund and assumed recovery rates.

Private equity investments

Description: This category includes private equity investments.

Valuation: Private equity investments are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of a number of individual pricing benchmarks such as the prices of recent transactions in the same or similar entities, discounted cash flow analysis, and comparison with the earnings multiples of listed comparative companies. Full valuations are generally performed at least bi-annually, with the positions reviewed periodically for material events that might impact upon fair value. The valuation of unquoted equity instruments is subjective by nature. However, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time.

Observability: Unobservable inputs include earnings estimates, multiples of comparative companies, marketability discounts and discount rates.

Level 3 sensitivity: The relevant valuation models are each sensitive to a number of key assumptions, such as projected future earnings, comparator multiples, marketability discounts and discount rates. Valuation sensitivity is estimated by flexing such assumptions to reasonable alternative levels and determining the impact on the resulting valuation.

Physical commodities

Description: This category includes physical commodities such as metals and crude oil.

Valuation: The fair values of physical commodities are primarily determined through market observable prices.

Observability: Physical commodities are generally observable.

Level 3 sensitivity: There is no Level 3 sensitivity associated with physical commodities as inputs to valuation are observable.

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For the year ended 31 December 2013 continued

Note 18: Fair value of assets and liabilities continued**Investment Property**

Description: Investment property consists of commercial real estate property including most of the major property types retail, office, industrial and multi-family properties.

Valuation: Investment property is valued using competitive asset specific market bids. When bids are unavailable, valuations are determined by independent third party appraiser through a discounted cash flow analysis. The key inputs to the discounted cash flow valuation are capitalisation rates, yields, growth rate, and loss given default.

Observability: Since each investment property is unique in nature and the commercial real estate market is illiquid, valuation inputs are largely unobservable.

Level 3 sensitivity: For investment property, sensitivity is determined by a range of asset specific market bids or by stressing the inputs to the discounted cash flow analysis.

Other

Description: The receivables resulting from the acquisition of the North American businesses of Lehman Brothers is also included within 'Other'. For more details, refer to Note 30 Legal, competition and regulatory matters.

Level 3 sensitivity: No stress has been applied to the receivables relating to the Lehman acquisition (Note 16). The sensitivity inherent in the measurement of the receivables is akin to a litigation provision. Due to this, an upside and downside stress on a basis comparable with the other assets cannot be applied.

Complex Derivative Instruments

Valuation estimates made by counterparties with respect to complex derivative instruments, for the purpose of determining the amount of collateral to be posted, often differ, sometimes significantly, from Barclays own estimates. In almost all cases, Barclays has been able to successfully resolve such differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of collateral calls, Barclays will often be engaged in discussion with one or more counterparties in respect of such differences at any given time. Valuation estimates made by counterparties for collateral purposes are, like any other third-party valuation, considered when determining Barclays fair value estimates.

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Note 18: Fair value of assets and liabilities continued
Sensitivity analysis of valuations using unobservable inputs

	Fair value		Favourable changes		Unfavourable changes	
	Total assets £m	Total liabilities £m	Income statement £m	Equity £m	Income statement £m	Equity £m
As at 31 December 2013						
Interest rate derivatives	1,031	(1,046)	246	–	(251)	–
Foreign exchange derivatives	117	(86)	32	–	(32)	–
Credit derivatives	2,200	(780)	145	–	(287)	–
Equity derivatives	1,266	(1,867)	234	–	(234)	–
Commodity derivatives	399	(540)	41	–	(41)	–
Government and government sponsored debt	220	–	1	–	(1)	–
Corporate debt	3,040	(12)	10	–	(4)	–
Certificates of deposit, commercial paper and other money market instruments	–	(409)	–	–	–	–
Non asset backed loans	16,132	–	151	–	(1,177)	–
Asset backed securities	2,112	–	104	1	(74)	(1)
Commercial real estate loans	1,198	–	61	–	(29)	–
Issued debt	1	(1,164)	–	–	–	–
Equity cash products	168	–	–	12	–	(12)
Funds and fund linked products	550	(54)	25	–	(25)	–
Investment property	451	–	22	–	(21)	–
Other	4,029	(1)	186	58	(182)	(47)
Total	32,914	(5,959)	1,258	71	(2,358)	(60)
As at 31 December 2012						
Interest rate derivatives	1,353	(1,204)	109	–	(109)	–
Foreign exchange derivatives	203	(244)	44	–	(44)	–
Credit derivatives	3,039	(1,206)	410	–	(512)	–
Equity derivatives	1,092	(1,702)	220	–	(214)	(1)
Commodity derivatives	660	(543)	70	–	(70)	–
Government and government sponsored debt	367	–	–	–	–	–
Corporate debt	3,339	(36)	15	–	(11)	–
Certificates of deposit, commercial paper and other money market instruments	–	(760)	–	–	–	–
Non asset backed loans	2,365	–	59	12	(58)	(12)
Asset backed securities	4,106	–	390	7	(305)	(7)
Commercial real estate loans	1,798	–	64	–	(47)	–
Issued debt	–	(1,439)	–	–	–	–
Equity cash products	145	–	–	13	–	(13)
Funds and fund linked products	754	(122)	112	–	(112)	–
Investment property	1,686	–	116	–	(104)	–
Other	4,476	(88)	312	64	(281)	(60)
Total	25,383	(7,344)	1,921	96	(1,867)	(93)

The effect of stressing unobservable inputs to a range of reasonably possible alternatives alongside considering the impact of using alternative models would be to increase fair values by up to £1.3bn (2012: £2.0bn^a) or to decrease fair values by up to £2.4bn (2012: £2.0bn^a). The ESHLA transfer contributed £1.0bn to the decrease with substantially all the potential effect impacting profit and loss rather than other comprehensive income.

The effect of stressing unobservable inputs has become less symmetric for 2013 following reassessment of the significance of unobservable loan spreads on the valuation of the ESHLA portfolio (included in non asset backed loans). The stress related to this portfolio is considered to be asymmetric as it is felt that alternative choices of loan spreads could lead to a lower valuation.

Note

a The sensitivity analysis for 2012 has been revised to reflect the inclusion of investment property. This amounted to £0.1bn.

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For the year ended 31 December 2013 continued

Note 18: Fair value of assets and liabilities continued**Significant unobservable inputs**

The following table discloses the valuation techniques and significant unobservable inputs for assets and liabilities recognised at fair value and classified as Level 3 along with the range of values used for those significant unobservable inputs:

	Total assets £m	Total liabilities £m	Valuation technique(s)	Significant unobservable inputs	Range		Weighted average ^a	Units ^b
					Min	Max		
Derivative financial instruments^c								
Interest rate derivatives	1,031	(1,046)	Discounted cash flows Option model	Inflation forwards Inflation volatility IR – IR correlation FX – IR correlation Interest Rate Volatility	(0.1) 1 (34) 14 8	4 2 100 90 52		% % % % %
Credit derivatives	2,200	(780)	Discounted cash flows Correlation model Comparable pricing	Credit spread Credit correlation Credit spread Price	138 22 206 –	1,530 81 934 100		bps % bps points
Equity derivatives	1,266	(1,867)	Option Model	Equity volatility Equity – equity correlation Equity – FX correlation	13 25 (91)	97 96 55		% % %
Non derivative financial instruments								
Corporate debt	3,040	(12)	Discounted cash flows Comparable pricing	Credit spread Price	138 –	540 120	208 21	bps points
Asset backed securities	2,112	–	Discounted cash flows Comparable pricing	Conditional prepayment rate Constant default rate Loss given default Yield Credit spread Price	– – – – 13 –	54 15 100 52 5,305 201	2 4 87 6 711 55	% % % % bps points
Commercial real estate loans	1,198	–	Discounted Cash Flows	Loss given default Yield Credit spread	– 2 134	100 26 294	2 6 155	% % bps
Issued debt ^e	1	(1,164)						
Non asset backed loans	16,132	–	Discounted Cash Flows	Loan spread	–	1,124	34	bps
Other ^f	4,029	(1)	Discounted cash flows Comparable pricing Net asset value ^d	Conditional prepayment rate Constant default rate Loss given default Yield Price Net asset value	– 2 33 3 –	19 10 95 35 102	3 5 75 7 73	% % % % points

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- a Weighted averages have been provided for non-derivative financial instruments and have been calculated by weighting inputs by the relative fair value. A weighted average has not been provided for derivatives as weighting by fair value would not give a comparable metric.
- b The units used to disclose ranges for significant unobservable inputs are percentages, points and basis points. Points are a percentage of par; for example, 100 points equals 100% of par. A basis point equals 1/100th of 1%; for example, 150 basis points equals 1.5%.
- c Certain derivative instruments are classified as L3 due to a significant unobservable credit spread input into the calculation of the Credit Valuation Adjustment (CVA) for the instruments. The range of unobservable credit spreads is between 29-1,065bps.
- d A range has not been provided for Net Asset Value as there would be a wide range reflecting the diverse nature of the positions.
- e Issued debt includes structured notes issued by Barclays containing embedded derivatives. Where an unobservable input is significant to the fair value of the note, it is likely to relate to the embedded derivative. In such cases, the unobservable inputs are broadly consistent with those presented for derivatives.
- f 'Other' primarily includes receivables resulting from the acquisition of the North American businesses of Lehman Brothers, asset-backed loans, private equity investments and non current assets held for sale.

Note 18: Fair value of assets and liabilities continued

The following section describes the significant unobservable inputs identified in the table above, and the sensitivity of fair value measurement of the instruments categorised as Level 3 assets or liabilities to increases in significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Where reliable interrelationships can be identified between significant unobservable inputs used in fair value measurement a description of those interrelationships is included below.

Comparable Price

Comparable instrument prices are used in valuation by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable observable bond, then adjusting that yield (or spread) to derive a value for the unobservable bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond.

In general a significant increase in comparable price in isolation will result in a movement in fair value that is favourable for the holder of a cash instrument.

For a derivative instrument, a significant increase in an input derived from a comparable price in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Conditional Prepayment Rate

Conditional prepayment rate is the proportion of voluntary, unscheduled repayments of loan principal by a borrower. Prepayment rates affect the weighted average life of securities by altering the timing of future projected cashflows.

A significant increase in a conditional prepayment rate in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Conditional prepayment rates are typically inversely correlated to credit spread. i.e. Securities with high borrower credit spread typically experience lower prepayment rates, and also tend to experience higher default rates.

Constant Default Rate

The Constant Default Rate represents an annualised rate of default of the loan principal by the borrower.

A significant increase in a constant default rate in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Constant Default Rate and Conditional Prepayment Rates are typically inversely correlated, less defaults on loans typically will mean higher credit quality and therefore more prepayments.

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input into valuation of derivative contracts with more than one underlying instrument. For example, where an option contract is written on a basket of underlying names the volatility of the basket, and hence the fair value of the option, will depend on the correlation between the basket components. Credit correlation generally refers to the correlation between default processes for the separate names that make up the reference pool of a collateralised debt obligation structure.

A significant increase in correlation in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Credit Spread / Loan Spread

Credit spreads typically represent the difference in yield between an instrument and a benchmark security or reference rate. Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cashflow calculation.

In general a significant increase in credit spread or Loan Spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash asset.

For a derivative instrument, a significant increase in credit spread in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

[Forwards](#)

A price or rate that is applicable to a financial transaction that will take place in the future. A forward is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument at a point in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment. In general a significant increase in a forward in isolation will result in a movement in fair value that is favourable for the contracted receiver of the underlying (currency, bond, commodity etc.), but the sensitivity is dependent on the specific terms of the instrument.

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Note 18: Fair value of assets and liabilities continued

Loss Given Default (LGD)

Loss Given Default represents the expected loss upon liquidation of the collateral as a percentage of the balance outstanding.

In general a significant increase in the LGD in isolation will translate to lower recovery and lower projected cashflows to pay to the securitisation, resulting in a movement in fair value that is unfavourable for the holder of the securitised product.

Net Asset Value

Net asset value represents the total value of a fund's assets and liabilities.

In general a significant increase in net asset value in isolation will result in a movement in fair value that is favourable for a fund.

Volatility

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. In general, volatilities will be implied from observed option prices. For unobservable options the implied volatility may reflect additional assumptions about the nature of the underlying risk, as well as reflecting the given strike/maturity profile of a specific option contract.

In general a significant increase in volatility in isolation will result in a movement in fair value that is favourable for the holder of a simple option, but the sensitivity is dependent on the specific terms of the instrument.

There may be interrelationships between unobservable volatilities and other unobservable inputs that can be implied from observation (e.g. when equity prices fall, implied equity volatilities generally rise) but these are specific to individual markets and may vary over time.

Yield

The rate used to discount projected cashflows in a discounted future cashflow analysis.

In general a significant increase in yield in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument.

Fair value adjustments

Key balance sheet valuation adjustments that may be of interest from a financial statement user perspective are quantified below:

	2013 £m	2012 £m
Bid-offer valuation adjustments	(406)	(452)
Other exit adjustments	(208)	(294)
Uncollateralised derivative funding	(67)	(101)
Derivative credit valuation adjustments:		
– Monolines	(62)	(235)
– Other derivative credit valuation adjustments	(322)	(693)
Derivative debit valuation adjustments	310	442

Bid-offer valuation adjustments

The Group uses mid-market pricing where it is a market-maker and has the ability to transact at, or better than, mid price (which is the case for certain equity, bond and vanilla derivative markets). For other financial assets and liabilities, bid-offer adjustments are recorded to reflect the price for the expected close out strategy. The methodology for determining the bid-offer adjustment for a derivative portfolio involves calculating the net risk exposure by offsetting long and short positions by strike and term in accordance with the risk management and hedging strategy. Bid-offer levels are derived from market sources, such as broker data. The bid offer adjustments have reduced by £46m to £406m during 2013 as a result of movements in market bid offer spreads.

Other exit adjustments

Market data input for exotic derivatives may not have a directly observable bid offer spread. In such instances, an exit adjustment is applied as a proxy for the bid-offer adjustment. An example of this is correlation risk where an adjustment is required to reflect the possible range of values that market participants apply. The uncertainty adjustment may be determined by calibrating to derivative prices, or by scenario analysis or historical analysis. The other exit adjustments have reduced by £86m to £208m respectively as a result of movements in market bid offer spreads.

Discounting approaches for derivative instruments

Collateralised

In line with market practice, the methodology for discounting collateralised derivatives takes into account the nature and currency of the collateral that can be posted within the relevant Credit Support Annex (CSA). The CSA-aware discounting approach recognises the 'cheapest to deliver' option that reflects the ability of the party posting collateral to change the currency of the collateral.

Uncollateralised

A fair value adjustment of £67m is applied to account for the impact of incorporating the cost of funding into the valuation of uncollateralised derivatives accounted for at fair value across all asset classes and businesses within Barclays Corporate Banking and Investment Bank. This is called the 'funding fair value adjustment (FFVA).

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Note 18: Fair value of assets and liabilities continued

FFVA is calculated as the valuation impact of changing from LIBOR-based discounting to using a discount rate that reflects the market cost of funding. Barclays internal Treasury lending rates are used as an estimate of this rate, although Barclays continues to assess viable alternatives and evolving market practice. Expected trade cash flows are consolidated at portfolio and currency level. The FFVA impact is applied symmetrically per currency to positive and negative cash flows.

The discounting period applied takes into account the probability of default of each counterparty, as well as any mandatory break clauses. Cash flows from partially funded trades (where this could be due to a contractual or non contractual collateral gap) are taken into account.

The FFVA incorporates a scaling factor which is an estimate of the extent to which the cost of funding is incorporated into observed traded levels. On calibrating the scaling factor, it is with the assumption that Credit Valuation Adjustments (CVAs) and Debit Valuation Adjustments (DVAs) are retained as valuation components incorporated into such levels. The effect of this scaling factor at 31 December 2013 was £200m (2012:£303m).

Uncollateralised interest rate derivatives traded by the Fixed Income Rates desk are used to determine this scaling factor, as the impact from this portfolio contributes the majority of the FFVA, where the trading history analysed includes new trades, terminations and novations. The FFVA balance and movement is driven by the Barclays own cost of funding spread over LIBOR, counterparty default probabilities and recovery rates, as well as the market value of those derivatives in scope. Movements in the market value of the portfolio in scope for FFVA are driven by interest rates.

Barclays continues to monitor market practices and activity to ensure the approach to discounting in derivative valuation remains appropriate. The above approach has been in use since 2012 with no significant changes.

Uncollateralised derivative funding adjustments have reduced by £34m to £67m as a result of reductions in Barclays funding costs and a reduction in exposure.

Derivative credit and debit valuation adjustments

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Barclays own credit quality respectively. These adjustments are modelled for OTC derivatives across all asset classes. Calculations are derived from estimates of exposure at default, probability of default and recovery rates, on a counterparty basis. Counterparties include (but are not limited to) corporates, monolines, sovereigns and sovereign agencies, supranationals, and special-purpose vehicles.

Exposure at default for CVA and DVA is generally based on expected exposure, estimated through the simulation of underlying risk factors. For some complex products, where this approach is not feasible, simplifying assumptions are made, either through proxying with a more vanilla structure, or using current or scenario-based mark-to-market as an estimate of future exposure. Where strong collateralisation agreement exists as a mitigant to counterparty risk, the exposure is set to zero.

Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken based on mapping internal counterparty ratings onto historical or market-based default and recovery information. In particular, this applies to sovereign related names where the effect of using the recovery assumptions implied in CDS levels would imply a £105m (2012: £200m) increase in CVA.

Correlation between counterparty credit and underlying derivative risk factors may lead to a systematic bias in the valuation of counterparty credit risk, termed 'wrong-way' or 'right-way' risk. This is not incorporated into the CVA calculation, but risk of wrong-way exposure is controlled at the trade origination stage.

Derivative credit valuation adjustments reduced by £544m to £384m primarily as a result of a reduction in monoline exposure and improvements in counterparty credit. Derivative debit valuation adjustments have reduced by £132m to £310m primarily as a result of improvements in Barclays credit.

Portfolio exemptions

The Group uses the portfolio exemption in IFRS 13 Fair Value Measurement to measure the fair value of the group financial assets and financial liabilities. Assets and liabilities are measured using the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the balance sheet date under current market conditions.

Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	2013	2012
	£m	£m

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As at 1 January	148	117
Additions	53	78
Amortisation and releases	(64)	(47)
As at 31 December	137	148

The reserve held for unrecognised gains is predominantly related to derivative financial instruments.

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Note 18: Fair value of assets and liabilities continued
Third-party credit enhancements

Structured and brokered certificates of deposit issued by Barclays Group are insured up to \$250,000 per depositor, by the Federal Deposit Insurance Corporation (FDIC) in the United States of America. The FDIC is funded by premiums that Barclays and other banks pay for deposit insurance coverage. The carrying value of these issued certificates of deposit that are designated under the IAS 39 fair value option includes this third party credit enhancement. The on-balance sheet value of these brokered certificates of deposit amounted to £3.1bn at 31 December 2013.

Valuation control framework

The Finance-Product Control-Valuations function is responsible for independent price verification, oversight of fair value adjustments and escalation of valuation issues. This process covers all fair value positions and is a key control in ensuring the material accuracy of valuations. Governance over the valuation process is the responsibility of the Valuation Committee. This Committee meets monthly and is responsible for overseeing valuation and fair value adjustment policy within Corporate Banking and Investment Banking and this is the forum to which valuation issues are escalated.

Price verification uses independently sourced data that is deemed most representative of the market. The characteristics against which the data source is assessed are independence, reliability, consistency with other sources and evidence that the data represents an executable price. The most current data available at balance sheet date is used. Where significant variances are noted in the independent price verification process, an adjustment is taken to the fair value position. Additional fair value adjustments may be taken to reflect such factors as bid-offer spreads, market data uncertainty, model limitations and counterparty risk – further detail on these fair value adjustments is disclosed on pages 318 and 319.

Comparison of carrying amounts and fair values for assets and liabilities not held at fair value

The following table summarises the fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet where the carrying amount is not a reasonable approximation of fair value:

	2013		2012	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Loans and advances to banks	37,853	37,839	40,462	40,462
Loans and advances to customers:				
– Home loans	179,527	170,793	174,988	164,608
– Credit cards, unsecured and other retail lending	64,551	63,944	59,577	58,494
– Finance lease receivables	5,827	5,759	6,837	6,863
– Corporate loans	180,506	176,673	182,504	176,727
Reverse repurchase agreements and other similar secured lending	186,779	186,756	176,522	176,461
Financial liabilities				
Deposits from banks	(54,834)	(54,865)	(77,012)	(77,025)
Customer accounts:				
– Current and demand accounts	(134,849)	(134,849)	(127,786)	(127,786)
– Savings accounts	(123,824)	(123,886)	(99,875)	(99,875)
– Other time deposits	(169,229)	(168,959)	(157,750)	(157,752)
Debt securities in issue	(86,693)	(87,022)	(119,525)	(119,669)
Repurchase agreements and other similar secured borrowing	(196,748)	(196,748)	(217,178)	(217,178)
Subordinated liabilities	(21,695)	(22,193)	(24,018)	(23,467)

The fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a wide range of valuation techniques are available, it may not be appropriate to directly compare the Barclays fair value information to independent market or other financial institutions. Different valuation methodologies and assumptions can have a significant impact on fair values which are based on unobservable inputs.

Financial assets

The carrying value of financial assets held at amortised cost (including loans and advances to banks and customers, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the relevant accounting policy noted on pages 324 and 325.

Loans and advances to banks

The fair value of loans and advances, for the purpose of this disclosure, is derived from discounting expected cashflows in a way that reflects the current market price for lending to issuers of similar credit quality. Where market data or credit information on the underlying borrowers is unavailable, a number of proxy / extrapolation techniques are employed to determine the appropriate discount rates.

There is minimal difference between the fair value and carrying amount due to the short term nature of the lending (i.e. predominantly overnight deposits) and the high credit quality of counterparties.

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Note 18: Fair value of assets and liabilities continued

Loans and advances to customers

The fair value of loans and advances to customers, for the purpose of this disclosure, is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality.

For retail lending (i.e. Home loans and Credit cards) tailored discounted cash flow models are used to estimate the fair value of different product types. For example for home loans different models are used to estimate fair values of tracker, offset and fixed rate mortgage products. Key inputs to these models are the differentials between historic and current product margins and estimated prepayment rates.

The discount of fair value to carrying amount for home loans has reduced to 5% (2012:6%) due to changes in product mix across the loan portfolio and movements in product margins.

The fair value of Corporate loans calculated by the use of discounted cash flow techniques where the gross loan values are discounted at a rate of difference between contractual margins and hurdle rates or spreads where Barclays charges a margin over LIBOR depending on credit quality and loss given default and years to maturity. The discount between the carrying and fair value has marginally decreased to 2.1% (2012: 3.2%).

Reverse repurchase agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short dated.

Financial liabilities

The carrying value of financial liabilities held at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the accounting policy noted on pages 325 and 341.

Deposits from banks and customer accounts

In many cases, the fair value disclosed approximates carrying value because the instruments are short term in nature or have interest rates that re-price frequently such as customer accounts and other deposits and short term debt securities.

The fair value for deposits with longer term maturities such as time deposits, are estimated using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities. Consequently the fair value discount is minimal.

Debt securities in issue

Fair values of other debt securities in issue are either based on quoted prices or where the instruments are short dated, carrying amount approximates fair value. The fair value difference remained relatively flat at 0.4% (2012: 0.1%).

Repurchase agreements

The fair value of repurchase agreements approximates carrying amounts as these balances are generally short dated.

Subordinated liabilities

Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issue concerned or issues with similar terms and conditions.

As at December 2013	Fair Value £m	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets				
Loans and advances to banks	37,839	3,849	30,003	3,987
Loans and advances to customers:				
– Home loans	170,793	–	–	170,793
– Credit cards, unsecured and other retail lending	63,944	2,790	1,659	59,495
– Corporate loans	176,673	635	115,923	60,115
Reverse repurchase agreements and other similar secured lending	186,756	–	186,756	–
Financial liabilities				
Deposits from banks	(54,865)	(4,886)	(49,697)	(282)
Customer accounts:				
– Current and demand accounts	(134,849)	(129,369)	(3,254)	(2,226)
– Savings accounts	(123,886)	(106,964)	(15,876)	(1,046)
– Other time deposits	(168,959)	(41,815)	(115,976)	(11,168)
Debt securities in issue	(87,022)	(872)	(85,471)	(679)
Repurchase agreements and other similar secured borrowing	(196,748)	–	(196,748)	–
Subordinated liabilities	(22,193)	–	(22,158)	(35)

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Note 18: Fair value of assets and liabilities continued**Fair Value hierarchy**[Financial assets](#)[Loans and advances](#)

The Fair Value hierarchy for loans and advances is determined by reference to the observability of inputs into the fair value models:

- Balances considered as readily accessible cash are classified as level 1;
- Where significant inputs into the fair value models are considered observable, for example LIBOR or the Bank of England base rate, the balances are classified as level 2. Settlement balances and cash collateral are also classified as level 2; and
- Where unobservable inputs, such as Barclays historic and current product margins, are deemed significant, the related balances are classified as level 3

Loans and advances to banks are mainly classified as level 2. Home loans, Credit cards, unsecured and other retail lending are generally classified as level 3 as significant inputs used in the valuation models are unobservable. Corporate loans are mainly classified as level 2 or 3 depending on the observability of inputs into the fair value models.

[Reverse repurchase agreements](#)

The fair value for repurchase agreements is obtained using fair value models with observable inputs. These balances are therefore classified as level 2.

[Financial liabilities](#)[Deposits from banks](#)

The majority of the deposits from banks balance is classified as level 2 where they represent cash collateral, settlements and other deposits. Readily accessible cash is classified as level 1.

[Customer accounts](#)

The majority of customer account balances are classified as level 1 where the balances represent readily accessible cash, and level 2 where they represent settlements and other deposits. The level 3 balances are largely comprised of other deposits where models with significant unobservable inputs, such as internal margins, are being used.

[Debt securities in issue](#)

These are mainly classified as level 2 as the inputs into the fair value models used for these balances are observable.

[Repurchase agreements](#)

The fair value for repurchase agreements is obtained using fair value models with observable inputs. These balances are therefore classified as level 2.

[Subordinated liabilities](#)

The majority of these balances are classified as level 2 as the inputs used to determine fair value are largely observable in an active market.

Critical accounting estimates and judgements

Quoted market prices are not available for many of the financial assets and liabilities that are held at fair value and the Group uses a variety of techniques to estimate the fair value. The above note describes the more judgemental aspects of valuation in the period, including: credit valuation adjustments on monoline exposures, commercial real estate loans, private equity investments, and fair value loans to government and business and other services.

Note 19: Offsetting financial assets and financial liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on:

- all financial assets and liabilities that are reported net on the balance sheet; and
- all derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

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Note 19: Offsetting financial assets and financial liabilities continued

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of IAS 32 described above.

The 'Net amounts' presented below are not intended to represent the Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

As at 31 December	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements ^c	Balance sheet total ^f
	Effects of offsetting on balance sheet			Related amounts not offset ^c				
	Gross amounts £m	Amounts offset ^a £m	Net amounts reported on the balance sheet ^b £m	Financial instruments £m	Financial collateral £m	Net amount £m		
Derivative financial assets	608,696	(295,793)	312,903	(258,528)	(41,397)	12,978	11,432	324,335
Reverse repurchase agreements and other similar secured lending	246,281	(93,508)	152,773	–	(151,833)	940	34,006	186,779
Total Assets	854,977	(389,301)	465,676	(258,528)	(193,230)	13,918	45,438	511,114
Derivative financial liabilities	(603,580)	296,273	(307,307)	258,528	36,754	(12,025)	(13,327)	(320,634)
Repurchase agreements and other similar secured borrowing	(253,966)	93,508	(160,458)	–	159,686	(772)	(36,290)	(196,748)
Total Liabilities	(857,546)	389,781	(467,765)	258,528	196,440	(12,797)	(49,617)	(517,382)
As at 31 December 2012								
Derivative financial assets	879,082	(420,741)	458,341	(387,672)	(53,183)	17,486	10,815	469,156
Reverse repurchase agreements and other similar secured lending ^f	244,272	(100,989)	143,283	–	(142,009)	1,274	33,239	176,522
Total Assets	1,123,354	(521,730)	601,624	(387,672)	(195,192)	18,760	44,054	645,678
Derivative financial liabilities	(869,514)	419,192	(450,322)	387,672	52,163	(10,487)	(12,399)	(462,721)
Repurchase agreements and other similar secured borrowing ^f	(259,078)	100,989	(158,089)	–	157,254	(835)	(59,089)	(217,178)
Total Liabilities	(1,128,592)	520,181	(608,411)	387,672	209,417	(11,322)	(71,488)	(679,899)

Derivative assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and other credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation section on pages 398 to 400.

Notes

a Amounts offset for derivative financial assets includes cash collateral netted of £1,965m (2012: £6,506m). Amounts offset for derivative liabilities includes cash collateral netted of £2,445m (2012: £4,957m). Settlements assets and liabilities have been offset amounting to £6,967m (2012: £9,879m). No other significant recognised financial assets and liabilities were offset in the balance sheet. Therefore, the only balance sheet categories necessary for inclusion in the table are those shown above.

b The table excludes reverse repurchase agreements designated at fair value which are subject to enforceable master netting arrangements of £2bn (2012: £3bn).

c Financial collateral is reflected at its fair value, but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.

d This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.

e The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

f Comparative figures have been restated to accurately reflect the identification of contracts with enforceable netting arrangements. Net Amounts reported on the balance sheet have increased £12,795m and £27,049m for reverse repurchase agreements and repurchase agreements respectively. A corresponding decrease was noted within amounts not subject to enforceable netting arrangements amounts. Financial collateral increased £12,293m for reverse repurchase agreements and £26,810m for repurchase agreements. Net amount increased £502m for reverse repurchase agreements and £239m

for repurchase agreements.

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Financial instruments held at amortised cost

 The notes included in this section focus on assets that are held at amortised cost arising from the Group's retail and wholesale lending including loans and advances, finance leases, repurchase and reverse repurchase agreements and similar secured lending. Detail regarding the Group's capital and liquidity position can be found on pages 199 to 224.

Note 20: Loans and advances to banks and customers

Accounting for financial instruments held at amortised cost

Loans and advances to customers and banks, customer accounts, debt securities and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability.

	2013 £m	2012 £m
As at 31 December 2013		
Gross loans and advances to banks	37,863	40,503
Less: allowance for impairment	(10)	(41)
Loans and advances to banks	37,853	40,462
Gross loans and advances to customers	437,659	431,664
Less: allowance for impairment	(7,248)	(7,758)
Loans and advances to customers	430,411	423,906

Further information on the Group's loans and advances to banks and customers and impairment allowances are included on pages 142 to 189.

Note 21: Finance leases

Accounting for finance leases

The Group applies IAS 17 *Leases* in accounting for finance leases, both where it is the lessor or the lessee. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Group is the lessor, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Where the Group is the lessee, the leased asset is recognised in property, plant and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease.

Interest income or expense is recognised in interest receivable or payable, allocated to accounting periods to reflect a constant periodic rate of return.

Finance lease receivables

Finance lease receivables are included within loans and advances to customers. The Group specialises in asset-based lending and works with a broad range of international technology, industrial equipment and commercial companies to provide customised finance programmes to assist manufacturers, dealers and distributors of assets.

	2013				2012			
	Gross investment in finance lease receivables	Future finance income	Present value of minimum lease payments receivable	Un-guaranteed residual values	Gross investment in finance lease receivables	Future finance income	Present value of minimum lease payments receivable	Un-guaranteed residual values
	£m	£m	£m	£m	£m	£m	£m	£m
Not more than one year	2,004	(286)	1,718	93	2,363	(329)	2,034	80
Over one year but not more than five years	4,308	(662)	3,646	268	5,055	(749)	4,306	105
Over five years	539	(76)	463	85	617	(120)	497	318
Total	6,851	(1,024)	5,827	446	8,035	(1,198)	6,837	503

The impairment allowance for uncollectable finance lease receivables amounted to £129m at 31 December 2013 (2012: £140m).

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Note 21: Finance leases continued

Finance lease liabilities

The Group leases items of property, plant and equipment on terms that meet the definition of finance leases. Finance lease liabilities are included within accruals, deferred income and other liabilities (see Note 27).

As at 31 December 2013, the total future minimum payments under finance leases were £19m (2012: £35m), of which £5m (2012: £5m) was due within one year. As at 31 December 2013, the carrying amount of assets held under finance leases was £16m (2012: £22m).

Note 22: Reclassification of financial assets held for trading

Accounting for the reclassification of financial assets held for trading

In accordance with IAS 39, where the Group no longer intends to trade in financial assets it may transfer them out of the held for trading classification and measure them at amortised cost if they meet the definition of a loan. The initial value used for the purposes of establishing amortised cost is fair value on the date of the transfer.

Prior to 2010, the Group reclassified certain financial assets, originally classified as held for trading that were deemed to be not held for trading purposes to loans and receivables.

The carrying value of the securities reclassified into loans and receivables has decreased from £5,188m to £2,812m primarily as a result of sales and paydowns of the underlying securities during the period.

Sales of securities from the 16 December 2008 reclassification totalled £18m (2012: £151m) and sales of securities from the 25 November 2009 reclassification totalled £1,573m (2012: £1,316m).

The following table provides a summary of the assets reclassified from held for trading to loans and receivables.

	2013		2012	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
As at 31 December				
Trading assets reclassified to loans and receivables				
Reclassification 25 November 2009	2,791	2,718	5,140	4,996
Reclassification 16 December 2008	21	9	48	50
Total financial assets reclassified to loans and receivables	2,812	2,727	5,188	5,046

If the reclassifications had not been made, the Group's income statements for 2013 would have included a net gain on the reclassified trading assets of £57m (2012: gain of £247m).

Note 23: Reverse repurchase and repurchase agreements including other similar lending and borrowing

Reverse repurchase agreements (and stock borrowing or similar transaction) are a form of secured lending whereby the Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

Accounting for reverse repurchase and repurchase agreements including other similar lending and borrowing

The Group purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost.

The Group may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at amortised cost.

	2013 £m	2012 £m
Assets		
Banks	67,889	64,616
Customers	118,890	111,906
Reverse repurchase agreements and other similar secured lending	186,779	176,522
Liabilities		
Banks	66,896	87,815
Customers	129,852	129,363
Repurchase agreements and other similar secured borrowing	196,748	217,178

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Non-current assets and other investments


The notes included in this section focus on the Group's non-current tangible and intangible assets and property plant and equipment, which provide long-term future economic benefits.

Note 24: Property, plant and equipment
Accounting for property, plant and equipment

The Group applies IAS 16 *Property Plant and Equipment* and IAS 40 *Investment Properties*.

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. The Group uses the following annual rates in calculating depreciation:

Annual rates in calculating depreciation	Depreciation rate
Freehold land	Not depreciated
Freehold buildings and long-leasehold property (more than 50 years to run)	2-3.3%
Leasehold property over the remaining life of the lease (less than 50 years to run)	Over the remaining life of the lease
Costs of adaptation of freehold and leasehold property	6-10%
Equipment installed in freehold and leasehold property	6-10%
Computers and similar equipment	17-33%
Fixtures and fittings and other equipment	9-20%

Where a leasehold property has a remaining useful life of less than 15 years, costs of adaptation and installed equipment are depreciated over the remaining life of the lease.

Investment property

The Group initially recognises investment property at cost, and subsequently at fair value at each balance sheet date reflecting market conditions at the reporting date. Gains and losses on re-measurement are included in the income statement.

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Note 24: Property, plant and equipment continued

	Investment property £m	Property £m	Equipment £m	Leased assets £m	Total £m
Cost					
As at 1 January 2013	1,686	4,030	4,794	14	10,524
Acquisitions and disposals of subsidiaries	—	—	—	—	—
Additions and disposals	(1,052)	21	88	(4)	(947)
Change in fair value of investment properties	41	—	—	—	41
Exchange and other movements	(224)	(127)	(330)	—	(681)
As at 31 December 2013	451	3,924	4,552	10	8,937
Accumulated depreciation and impairment					
As at 1 January 2013	—	(1,414)	(3,350)	(6)	(4,770)
Depreciation charge	—	(220)	(426)	(1)	(647)
Disposals	—	113	282	—	395
Exchange and other movements	—	8	293	—	301
As at 31 December 2013	—	(1,513)	(3,201)	(7)	(4,721)
Net book value	451	2,411	1,351	3	4,216
Cost					
As at 1 January 2012	2,928	3,959	4,755	20	11,662
Acquisitions and disposals of subsidiaries	(16)	6	1	—	(9)
Additions and disposals	(191)	177	211	(6)	191
Change in fair value of investment properties	23	—	—	—	23
Exchange and other movements	(1,058)	(112)	(173)	—	(1,343)
As at 31 December 2012	1,686	4,030	4,794	14	10,524
Accumulated depreciation and impairment					
As at 1 January 2012	—	(1,245)	(3,244)	(7)	(4,496)
Depreciation charge	—	(212)	(456)	(1)	(669)
Disposals	—	18	204	2	224
Exchange and other movements	—	25	146	—	171
As at 31 December 2012	—	(1,414)	(3,350)	(6)	(4,770)
Net book value	1,686	2,616	1,444	8	5,754

Property rentals of £70m (2012: £105m) and £38m (2012: £52m) have been included in net investment income and other income respectively. Impairment of £86m (2012: £6m) was charged during the year in relation to premises restructuring in Europe. Investment property disposals of £1bn relate to real estate investments within Crescent Real Estate Holdings LLC, an investment company controlled by Barclays until December 2013.

The fair value of investment property is determined by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Discounted cash flow techniques may be employed to calculate fair value where there have been no recent transactions, using current external market inputs such as market rents and interest rates. Valuations are carried out by management with the support of appropriately qualified independent valuers. Refer to Note 18 Fair value of assets and liabilities for further detail.

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For the year ended 31 December 2013 continued

Note 25: Goodwill and intangible assets
Accounting for goodwill and other intangible assets
Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the pre tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash generating unit (CGU) to which the goodwill relates, or the CGU's fair value if this is higher.

Intangible assets

The accounting standard that the Group applies in accounting for intangible assets other than goodwill is IAS 38 *Intangible Assets*.

Intangible assets include brands, customer lists, internally generated software, other software, licences and other contracts and core deposit intangibles. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
2013								
Cost								
As at 1 January 2013	6,585	1,844	478	243	149	1,638	476	11,413
Additions and disposals	–	617	79	–	–	36	6	738
Exchange and other movements	(239)	(50)	(1)	(49)	(33)	(131)	(45)	(548)
As at 31 December 2013	6,346	2,411	556	194	116	1,543	437	11,603
Accumulated amortisation and impairment								
As at 1 January 2013	(1,379)	(809)	(158)	(96)	(111)	(717)	(228)	(3,498)
Disposals	–	52	–	–	–	–	3	55
Amortisation charge	–	(241)	(38)	(9)	(13)	(144)	(35)	(480)
Impairment charge	(79)	(38)	(19)	–	–	–	(3)	(139)
Exchange and other movements	(10)	37	(2)	20	27	62	10	144
As at 31 December 2013	(1,468)	(999)	(217)	(85)	(97)	(799)	(253)	(3,918)
Net book value	4,878	1,412	339	109	19	744	184	7,685
2012								
Cost								
As at 1 January 2012	6,697	1,437	328	287	166	1,724	444	11,083
Additions and disposals	29	446	115	(21)	(1)	19	34	621
Exchange and other movements	(141)	(39)	35	(23)	(16)	(105)	(2)	(291)
As at 31 December 2012	6,585	1,844	478	243	149	1,638	476	11,413
Accumulated amortisation and impairment								
As at 1 January 2012	(1,392)	(694)	(114)	(114)	(106)	(615)	(202)	(3,237)
Disposals	–	32	5	21	1	1	5	65
Amortisation charge	–	(162)	(52)	(11)	(18)	(152)	(40)	(435)
Impairment charge	–	(8)	–	–	–	–	(2)	(10)
Exchange and other movements	13	23	3	8	12	49	11	119
As at 31 December 2012	(1,379)	(809)	(158)	(96)	(111)	(717)	(228)	(3,498)
Net book value	5,206	1,035	320	147	38	921	248	7,915

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Note 25: Goodwill and intangible assets continued

Goodwill

Goodwill is allocated to business operations according to business segments as follows:

	2013	2012
	£m	£m
UK RBB	3,142	3,144
Europe RBB	63	62
Africa RBB	690	863
Barclaycard	482	514
Investment Bank	77	93
Corporate Banking	112	139
Wealth and Investment Management	312	391
Total net book value of goodwill	4,878	5,206

Critical accounting estimates and judgements

Goodwill

Testing goodwill for impairment involves a significant amount of estimation. This includes the identification of independent cash generating units and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisation. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity and, the impacts of regulatory change. Determining both the expected pre-tax cash flows and the risk adjusted interest rate appropriate to the operating unit requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows.

Other intangible assets

Determining the estimated useful lives of intangible assets (such as those arising from contractual relationships) requires an analysis of circumstances and judgement. The assessment of whether an asset is exhibiting indicators of impairment as well as the calculation of impairment, which requires the estimate of future cash flows and fair values less costs to sell, also requires the preparation of cash flow forecasts and fair values for assets that may not be regularly bought and sold.

Impairment testing of goodwill

During 2013, the Group recognised an impairment charge of £79m (2012: nil) in respect of goodwill attributable to businesses acquired in a previous period by Wealth and Investment Management. Following a streamlining of operations within Wealth and Investment Management, the forecast future cashflows from these businesses have been revised and no longer support the carrying value of the goodwill. As a result the attributable goodwill balances have been fully impaired.

Key assumptions

The key assumptions used for impairment testing are set out below for each significant goodwill balance. Other goodwill of £1,091m (2012: £1,247m) was allocated to multiple cash-generating units which are not considered individually significant.

UK RBB

At 31 December 2013, goodwill relating to Woolwich was £3,130m (2012: £3,130m) of the total UK RBB balance. The carrying value of the cash generating unit (CGU) is determined using an allocation of total group shareholder funds excluding goodwill based on the CGU's share of risk weighted assets before goodwill balances are added back. The recoverable amount of the CGU has been determined using cash flow predictions based on financial budgets approved by management and covering a five-year period, with a terminal growth rate of 2.1% (2012: 2.4%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 11.8% (2012: 12.4%). Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by £8,628m (2012: £9,334m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £1,757m (2012: £1,637m) and £1,210m (2012: £1,115m) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £1,795m (2012: £1,767m).

Africa RBB

At 31 December 2013, goodwill relating to the Absa RBB CGU was £657m (2012: £829m) of the total Africa RBB balance. The carrying value of the CGU has been determined by using net asset value. The recoverable amount of Absa RBB has been determined using cash flow predictions based on financial budgets approved by management and covering a five year period, with a terminal growth rate of 6% (2012: 6%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 13.5% (2012: 13%). The recoverable amount calculated based on value in use exceeded the carrying amount including goodwill by £4,217m (2012: £3,133m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £800m (2012: £813m) and £603m (2012: £623m) respectively. A reduction in the forecast cash flows of 10% p.a. would reduce the recoverable amount by £664m (2012: £643m).

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Note 26: Operating leases**Accounting for operating leases**

The Group applies IAS 17 *Leases*, for operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group holds the leased assets on balance sheet within property, plant and equipment.

Where the Group is the lessee, rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Operating lease receivables

The Group acts as lessor, whereby items of plant and equipment are purchased and then leased to third parties under arrangements qualifying as operating leases. The future minimum lease payments expected to be received under non-cancellable operating leases as at 31 December 2013 was £3m (2012: £4m).

Operating lease commitments

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and the Group reports the future minimum lease payments as an expense over the lease term. The leases have various terms, escalation and renewal rights. There are no contingent rents payable.

Operating lease rentals of £645m (2012: £622m) have been included in administration and general expenses.

The future minimum lease payments by the Group under non-cancellable operating leases are as follows:

	2013		2012	
	Property £m	Equipment £m	Property £m	Equipment £m
Not more than one year	567	34	695	13
Over one year but not more than five years	1,220	124	1,290	3
Over five years	2,441	8	2,768	—
Total	4,228	166	4,753	16

Total future minimum sublease payments to be received under non-cancellable subleases as at 31 December 2013 was £108m (2012: £22m).

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Accruals, provisions, contingent liabilities and legal proceedings


The notes included in this section focus on the Group's accruals, provisions and contingent liabilities. Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Contingent liabilities reflect potential liabilities that are not recognised on the balance sheet.

Note 27: Accruals, deferred income and other liabilities
Accounting for insurance contracts

The Group applies IFRS 4 *Insurance Contracts* to its insurance contracts. An insurance contract is a contract that compensates a third party against a loss from non-financial risk. Some wealth management and other products, such as life assurance contracts, combine investment and insurance features; these are treated as insurance contracts when they pay benefits that are at least 5% more than they would pay if the insured event does not occur.

Insurance liabilities include current best estimates of future contractual cash flows, claims handling, and administration costs in respect of claims. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities. Where a deficiency is highlighted by the tests, insurance liabilities are increased, any deficiency being recognised in the income statement.

Insurance premium revenue is recognised in the income statement in the period earned, net of reinsurance premiums payable, in net premiums from insurance contracts. Increases and decreases in insurance liabilities are recognised in the income statement in net claims and benefits on insurance contracts.

	2013 £m	2012 £m
Accruals and deferred income	5,179	4,874
Other creditors	4,937	4,934
Obligations under finance leases (see Note 22)	19	35
Insurance contract liabilities, including unit-linked liabilities	2,799	2,689
Accruals, deferred income and other liabilities	12,934	12,532

Insurance liabilities relate principally to the Group's long term business. Insurance contract liabilities associated with the Group's short term non-life business are £108m (2012: £126m). The maximum amounts payable under all of the Group's insurance products, ignoring the probability of insured events occurring and the contribution from investments backing the insurance policies, were £78bn (2012: £102bn) or £75bn (2012: £98bn) after reinsurance. Of this insured risk, £65bn (2012: £87bn) or £63bn (2012: £86bn)^a after reinsurances was concentrated in short-term insurance contracts in Africa.

The impact to the income statement and equity under a reasonably possible change in the assumptions used to calculate the insurance liabilities would be £7m (2012: £7m).

Note

a 2012 amounts have been revised following a review of processes used to calculate the amount of risk ceded to reinsurers

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For the year ended 31 December 2013 continued

Note 28: Provisions**Accounting for provisions**

The Group applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accounting for non-financial liabilities.

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan. Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Conduct remediation		Other conduct £m	Litigation £m	Sundry provisions £m	Total £m
				Payment Protection Insurance redress £m	Interest rate hedging product redress £m				
As at 1 January 2013	104	71	159	986	814	213	200	219	2,766
Additions	55	784	116	1,350	650	310	371	82	3,718
Amounts utilised	(63)	(332)	(14)	(1,365)	(295)	(130)	(70)	(11)	(2,280)
Unused amounts reversed	(5)	(143)	(98)	–	–	(5)	(12)	(65)	(328)
Exchange and other movements	9	8	2	–	–	–	(4)	(5)	10
As at 31 December 2013	100	388	165	971	1,169	388	485	220	3,886

Provisions expected to be recovered or settled within no more than 12 months after 31 December 2013 were £3,577m (2012: £1,700m).

Conduct remediation

Conduct provisions comprise the estimated cost of making redress payments to customers, clients and counterparties for losses or damages associated with inappropriate judgement in the execution of our business activities. Conduct remediation largely relates to payment protection insurance and interest rate hedging products but also includes other smaller provisions across the retail and corporate businesses which are likely to be utilised within the next 18 months.

Critical accounting estimates and judgements[Payment Protection Insurance Redress](#)

Following the conclusion of the 2011 Judicial Review, Barclays has raised provisions totalling £3.95bn against the cost of PPI redress and complaint handling costs. As at 31 December 2013, £2.98bn of the provision had been utilised, leaving a residual provision of £0.97bn.

Through to 31 December 2013, 1.0m (2012: 0.6m) customer initiated claims^a had been received and processed. The monthly volume of claims received has declined by 59% since the peak in May 2012, although the rate of decline has been less than previously expected. As a result an additional provision of £1.35bn was recognised in June 2013 to reflect this increased expectation of claims, a corresponding increase in cases referred to the Financial Ombudsman Service (FOS) and associated operational costs.

In August 2012, in accordance with regulatory standards, Barclays commenced a proactive mailing of the holders of approximately 750,000 policies. Of this population approximately 660,000 (2012: 100,000) had been contacted by 31 December 2013 and it is anticipated that the remainder will be contacted by 31 March 2014.

To date Barclays has upheld 74% (2012: 70%) of all claims received^b, excluding payment of gestures of goodwill and claims for which no PPI policy exists. The average redress per valid policy^c to date is £1,763 (2012: £1,705), comprising, where applicable, the refund of premium, compound interest charged and compensatory interest of 8%.

The current provision is calculated using a number of key assumptions which continue to involve significant management judgement:

- Customer initiated claim volumes – claims received but not yet processed as at 31 December 2013 and an estimate of future claims initiated by customers where the volume is anticipated to decline over time
- Proactive response rate – volume of claims in response to proactive mailing
- Uphold rate – the percentage of claims that are upheld as being valid upon review

- Average claim redress – the expected average payment to customers for upheld claims based on the type and age of the policy/policies

Notes

- a Total claims received to date excluding those for which no PPI policy exists and excluding responses to proactive mailing. The volume for 31 December 2012 has been restated to exclude cases where there was no PPI policy: previously 1.1m.
- b Average uphold rate per claim excluding those for which no PPI policy exists. The average uphold rate for 31 December 2012 has been restated to exclude cases where there was no PPI policy: previously 39%.
- c Average redress stated on a per policy basis. The average redress for December 2012 has been restated on a policy basis: previously £2,750 (per valid claim basis).

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Note 28: Provisions continued

These assumptions remain subjective; in particular due to the uncertainty associated with future claims levels. The resulting provision represents Barclays' best estimate of all future expected costs of PPI redress. However, it is possible the eventual outcome may differ from the current estimate and if this were to be material and adverse a further provision will be made, otherwise it is expected that any residual costs will be handled as part of normal operations. The provision also includes an estimate of our claims handling costs and those costs associated with claims that are subsequently referred to the FOS.

The following table details, by key assumption, actual data through to 31 December 2013, forecast assumptions used in the provision calculation and a sensitivity analysis illustrating the impact on the provision if the future expected assumptions prove too high or too low.

Assumption	Cumulative actual to 31.12.13	Future Expected	Sensitivity Analysis increase/decrease in provision	Cumulative actual to 31.12.12
Customer initiated claims received and processed ^a	970K	190K	50K = £90m	570K
Proactive mailing	660K	90K		100K
Response rate to proactive mailing	26%	25%	1% = £1m	27%
Average uphold rate per claim ^b	74%	73%	1% = £4m	70%
Average redress per valid claim ^c	£1,763	£1,726	£100 = £23m	£1,705

During 2013, 45% (2012: 44%) of monthly average complaints received had no PPI associated with them. Furthermore, of the complaints received in 2013, 54% (2012: 43%) were from Claims Management Companies (CMC's), with this proportion rising to 70% in December 2013.

Interest Rate Hedging Product Redress

On 29 June 2012, the FSA announced that a number of UK banks, including Barclays, would conduct a review and redress exercise in respect of interest rate hedging products sold on or after 1 December 2001 to retail clients or private customers categorised as being 'non-sophisticated' under the terms of the agreement. Barclays sold interest rate hedging products to approximately 4,000 retail clients or private customers within the relevant timeframe, of which approximately 2,900 have been categorised as non-sophisticated.

As at 31 December 2012, a provision of £850m had been recognised, reflecting management's best estimate of future redress to customers categorised as non-sophisticated and related costs. The estimate was based on an extrapolation of the results of an initial pilot exercise across the population. The provision recognised in the balance sheet as at 31 December 2012 was £814m, after utilisation of £36m, primarily related to administrative costs.

During 2013, additional cases have been reviewed and further guidance has been provided by the FCA providing additional information upon which to estimate the provision. As a result, an additional provision of £650m was recognised in June 2013, bringing the cumulative expense to £1,500m. The provision recognised as at 31 December 2013 was £1,169m, after cumulative utilisation of £331m, primarily relating to administrative costs and £87m of redress costs incurred. An initial redress outcome had been communicated to nearly 30% of customers categorised as non-sophisticated that are being covered by the review. It is intended that redress outcomes will have been communicated to all customers that have opted into the review by June 2014. The timing of resulting payments will depend on customer acceptances and response times.

The form of redress for each non-sophisticated customer is uncertain. It may result in a full refund, as though the product had never been purchased, or an alternative product such as a cap. In addition, not all customers will be entitled to redress because some sales will have complied with relevant regulatory requirements at the time of sale.

The ultimate redress cost is also dependent on:

- The fair value of the underlying product and is therefore variable if interest rates move significantly;
- The administrative costs of completing the review and redress exercise;
- The length of time taken to complete the exercise, since an 8% p.a. interest charge is payable on product refund amounts.

No provision has been recognised in relation to claims from customers categorised as sophisticated, which are not covered by the redress exercise, or incremental consequential loss claims (above the 8% p.a. interest charge) from customers categorised as non-sophisticated. As at 31 December 2013, no significant incremental consequential loss claims from customers categorised as non-sophisticated had been agreed. These items will be monitored and future provisions will be recognised to the extent an obligation resulting in a probable outflow is identified.

While the Group expects that the provision as at 31 December 2013 will be sufficient to cover the full cost of completing the redress, the appropriate provision level will be kept under review and it is possible that the eventual costs could materially differ to the extent experience is not in line with current estimates.

Litigation

The Group is engaged in various legal proceedings, both in the UK and a number of other overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, please see Note 30 Legal, competition and regulatory matters.

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Redundancy and Restructuring

The provision relates to major restructuring initiatives across the Group. The increase in the provision during 2013 is largely due to the Transform Programme and will likely be utilised within the next 12 months.

Notes

- a Total claims received to date excluding those for which no PPI policy exists and excluding responses to proactive mailing. The volume for 31 December 2012 has been restated to exclude cases where there was no PPI policy; previously 1.1m.
- b Average uphold rate per claim excluding those for which no PPI policy exists. The average uphold rate for 31 December 2012 has been restated to exclude cases where there was no PPI policy; previously 39%.
- c Average redress stated on a per policy basis. The average redress for December 2012 has been restated on a policy basis; previously £2,750 (per valid claim basis)

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Note 29: Contingent liabilities and commitments
Accounting for contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

The following table summarises the nominal principal amount of contingent liabilities and commitments which are not recorded on balance sheet:

	2013 £m	2012 £m
Guarantees and letters of credit pledged as collateral security	15,226	15,855
Performance guarantees, acceptances and endorsements	5,958	6,406
Contingent liabilities	21,184	22,261
Documentary credits and other short-term trade related transactions	780	1,027
Forward starting reverse repurchase agreements^a	19,936	23,549
Standby facilities, credit lines and other commitments	254,855	247,816

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (the FSCS) is the UK's Government backed compensation scheme for customers of authorised institutions that are unable to pay claims. It provides compensation to depositors in the event that UK licensed deposit taking institutions are unable to meet their claims. The FSCS raises levies on UK licensed deposit taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March).

Compensation has previously been paid out by the FSCS funded by loan facilities totalling approximately £18bn provided by HM Treasury to FSCS in support of FSCS's obligations to the depositors of banks declared in default. The interest rate chargeable on the loan and levied to the industry is subject to a floor equal to the HM Treasury's own cost of borrowing, based on the relevant gilt rate (FSCS advises financial institutions to apply the 2024 UK Gilt rate published by the Debt Management Office to the Bradford & Bingley portion of the loan). The majority of the facility is expected to be recovered, with the exception of an estimated shortfall of £1bn which the FSCS intends to recover by levying the industry in three instalments across 2013, 2014 and 2015. In November 2013, HM Treasury communicated via the FSCS an additional expected shortfall in recoveries from Dunfermline Building Society, to be collected starting with an interim levy of £100m in 2014. Barclays has included an accrual of £148m in other liabilities (2012: £156m) in respect of the Barclays' portion of the total levies raised by the FSCS.

Further details on contingent liabilities relating to legal and competition and regulatory matters can be found in Note 30.

Note 30: Legal, competition and regulatory matters

Barclays PLC (BPLC), Barclays Bank PLC (BBPLC) and the Group face legal, competition and regulatory challenges, many of which are beyond our control. The extent of the impact on BPLC, BBPLC and the Group of the legal, competition and regulatory matters in which BPLC, BBPLC and the Group are or may in the future become involved, cannot always be predicted but may materially impact our operations, financial results and condition and prospects.

Lehman Brothers
Background Information

In September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court) by Lehman Brothers Holdings Inc. (LBHI), the SIPA Trustee for Lehman Brothers Inc. (Trustee) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (Committee). All three motions challenged certain aspects of the transaction pursuant to which Barclays Capital Inc. (BCI) and other companies in the Group acquired most of the assets of Lehman Brothers Inc. (LBI) in September 2008, as well as the court order approving the sale (Sale). The claimants sought an order voiding the transfer of certain assets to BCI, requiring BCI to return to the LBI estate any excess value BCI allegedly received, and declaring that BCI is not entitled to certain assets that it claims pursuant to the Sale documents and order approving the Sale (Rule 60 Claims). In January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI had failed to deliver as required by the Sale documents and the court order approving the Sale (together with the Trustee's competing claims to those assets, Contract Claims).

Status

In February 2011, the Bankruptcy Court issued an Opinion rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favour and some in favour of the Group. In July 2011, the Bankruptcy Court entered final Orders implementing its Opinion. The Group and the Trustee each appealed the Bankruptcy Court's adverse rulings on the Contract Claims to the US District Court for the Southern District of New York (SDNY). LBHI and the Committee did not appeal the Bankruptcy Court's ruling on the Rule 60 Claims. After briefing and argument, the SDNY issued an Opinion in June 2012, reversing one of the Bankruptcy Court's rulings on the Contract Claims that had been adverse to the Group and affirming the Bankruptcy Court's other rulings on the Contract Claims. In July 2012, the SDNY issued an amended Opinion, correcting certain errors but not otherwise modifying the rulings, along with an agreed judgement implementing the rulings in the Opinion.

(Judgement). Under the Judgement, the Group is entitled to receive: (i) \$1.1bn (£0.7bn) from the Trustee in respect of 'clearance box' assets (Clearance Box Assets); and (ii) property held at various institutions in respect of the exchange traded derivatives accounts transferred to BCI in the Sale (ETD Margin). The Trustee has appealed the SDNY's adverse rulings to the US Court of Appeals for the Second Circuit (Second Circuit). The current Judgement is stayed pending resolution of the Trustee's appeal.

Note

a Loan commitments have been revised to incorporate forward starting reverse repurchase agreements.

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Note 30: Legal, competition and regulatory matters continued

Approximately \$4.3bn (£2.6bn) of the assets to which the Group is entitled as part of the acquisition had not been received by 31 December 2013, approximately \$2.7bn (£1.6bn) of which have been recognised as a receivable on the balance sheet as at that date. The unrecognised amount, approximately \$1.6bn (£1.0bn) as of 31 December 2013 effectively represents a provision against the uncertainty inherent in the litigation and potential post-appeal proceedings and issues relating to the recovery of certain assets held by an institution outside the US. To the extent the Group ultimately receives in the future assets with a value in excess of the approximately \$2.7bn (£1.6bn) recognised on the balance sheet as of 31 December 2013, it would result in a gain in income equal to such excess. It appears that the Trustee may dispute the Group's entitlement to certain of the ETD Margin even in the event the Group prevails in the pending Second Circuit appeal proceedings. Moreover, there is uncertainty regarding recoverability of a portion of the ETD Margin not yet delivered to the Group that is held by an institution outside the US. Thus, the Group cannot reliably estimate how much of the ETD Margin the Group is ultimately likely to receive. Nonetheless, if the SDNY's rulings are unaffected by future proceedings, but conservatively assuming the Group does not receive any ETD Margin that the Group believes may be subject to a post-appeal challenge by the Trustee or to uncertainty regarding recoverability, the Group will receive assets in excess of the \$2.7bn (£1.6bn) recognised as a receivable on the Group's balance sheet as at 31 December 2013. In a worst case scenario in which the Second Circuit reverses the SDNY's rulings and determines that the Group is not entitled to any of the Clearance Box Assets or ETD Margin, the Group estimates that, after taking into account its effective provision, its total losses would be approximately \$6bn (£3.6bn). Approximately \$3.3bn (£2bn) of that loss would relate to Clearance Box Assets and ETD Margin previously received by the Group and prejudgement and post-judgement interest on such Clearance Box Assets and ETD Margin that would have to be returned or paid to the Trustee. In this context, the Group is satisfied with the valuation of the asset recognised on its balance sheet and the resulting level of effective provision.

Other

In May 2013 Citibank N.A. (Citi) filed an action against BBPLC in the SDNY alleging breach of an indemnity contract. In November 2008, BBPLC provided an indemnity to Citi in respect of losses incurred by Citi between 17 and 19 September 2008 in performing foreign exchange settlement services for LBI as LBI's designated settlement member with CLS Bank International. Citi did not make a demand for payment under this indemnity until 1 February 2013 when it submitted a demand that included amounts which Barclays concluded it was not obligated to pay. Citi proceeded to file the action in May 2013, in which it claimed that Barclays was responsible for a 'principal loss' of \$90.7m, but also claimed that BBPLC was obligated to pay Citi for certain alleged 'funding losses' from September 2008 to December 2012. In a June 2013 filing with the Court, Citi claimed that, in addition to the \$90.7m principal loss claim, it was also claiming funding losses in an amount of at least \$93.5m, consisting of alleged interest losses of over \$55m and alleged capital charges of \$38.5m. Both parties filed motions for partial summary judgement, and in November 2013 the SDNY ruled that: (i) Citi may only claim statutory prejudgment interest from 1 February 2013, the date upon which it made its indemnification demand on BBPLC; (ii) to the extent that Citi can prove it incurred actual funding losses in the form of interest and capital charges between September 2008 and December 2012, it is entitled to recover these losses under the indemnity provided by BBPLC; and (iii) BBPLC is entitled under the contract to demonstrate, as a defence to the funding loss claim, that Citi had no funding losses between September 2008 and December 2012 due to the fact that it held LBI deposits during that period in an amount greater than the principal amount Citi claims it lost in performing CLS services for LBI between 17 and 19 September 2008. Citi and BBPLC have reached an agreement in principle to settle this action (subject to negotiation and execution of definitive documentation).

American Depositary Shares

Background Information

BPLC, BBPLC and various current and former members of BPLC's Board of Directors have been named as defendants in five proposed securities class actions consolidated in the SDNY. The consolidated amended complaint, filed in February 2010, asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, alleging that registration statements relating to American Depositary Shares representing preferred stock, series 2, 3, 4 and 5 (Preferred Stock ADS) offered by BBPLC at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) BBPLC's portfolio of mortgage-related (including US subprime-related) securities, BBPLC's exposure to mortgage and credit market risk, and BBPLC's financial condition.

Status

In January 2011, the SDNY granted the defendants' motion to dismiss the complaint in its entirety, closing the case. In February 2011, the plaintiffs filed a motion asking the SDNY to reconsider in part its dismissal order, and, in May 2011, the SDNY denied in full the plaintiffs' motion for reconsideration. The plaintiffs appealed both the dismissal and the denial of the motion for reconsideration to the Second Circuit.

In August 2013, the Second Circuit upheld the dismissal of the plaintiffs' claims related to the series 2, 3 and 4 offerings, finding that they were time barred. However, the Second Circuit ruled that the plaintiffs should have been permitted to file a second amended complaint in relation to the series 5 offering claims, and remanded the action to the SDNY for further proceedings consistent with the Second Circuit's decision. In September 2013, the plaintiffs filed a second amended complaint, which purports to assert claims concerning the series 5 offering as well as dismissed claims concerning the series 2, 3 and 4

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offerings, and the defendants have moved to dismiss.

BBPLC considers that these Preferred Stock ADS-related claims against it are without merit and is defending them vigorously.

Mortgage-Related Activity and Litigation

The Group's activities within the US residential mortgage sector during the period of 2005 through 2008 included sponsoring and underwriting approximately \$39bn of private-label securitisations; economic underwriting exposure of approximately \$34bn for other private-label securitisations; sales of approximately \$0.2bn of loans to government sponsored enterprises (GSEs); and sales of approximately \$3bn of loans to others. In addition, during this time period, approximately \$19.4bn of loans (net of approximately \$500m of loans sold during this period and subsequently repurchased) were also originated and sold to third parties by mortgage originator affiliates of an entity that the Group acquired in 2007 (Acquired Subsidiary).

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Note 30: Legal, competition and regulatory matters continued

In connection with the Group's loan sales and sponsored private-label securitisations, the Group provided certain loan level representations and warranties (R&Ws) generally relating to the underlying mortgages, the property, mortgage documentation and/or compliance with law. The Group was the sole provider of R&Ws with respect to approximately \$5bn of Group sponsored securitizations, approximately \$0.2bn of sales of loans to GSEs, and approximately \$3bn of loans sold to others. In addition, the Acquired Subsidiary was the sole provider of R&Ws on all of the loans it sold to third parties. Other than approximately \$1bn of loans sold to others for which R&Ws expired prior to 2012, there are no stated expiration provisions applicable to the R&Ws made by the Group or the Acquired Subsidiary. The Group's R&Ws with respect to the \$3bn of loans sold to others are related to loans that were generally sold at significant discounts and contained more limited R&Ws than loans sold to GSEs, the loans sold by the Acquired Subsidiary or those provided by the Group on approximately \$5bn of the Group's sponsored securitisations discussed above. R&Ws on the remaining approximately \$34bn of the Group's sponsored securitisations were primarily provided by third party originators directly to the securitisation trusts with a Group subsidiary, as depositor to the securitisation trusts, providing more limited R&Ws. Under certain circumstances, the Group and/or the Acquired Subsidiary may be required to repurchase the related loans or make other payments related to such loans if the R&Ws are breached. The unresolved repurchase requests received on or before 31 December 2013 associated with all R&Ws made by the Group or the Acquired Subsidiary on loans sold to GSEs and others and private-label activities had an original unpaid principal balance of approximately \$1.7bn at the time of such sale.

Repurchase Claims

Substantially all of the unresolved repurchase requests discussed above relate to civil actions that have been commenced by the trustees for certain residential mortgage-backed securities (RMBS) securitisations, in which the trustees allege that the Group and/or the Acquired Subsidiary must repurchase loans that violated the operative R&Ws. The trustees in these actions have alleged that the operative R&Ws may have been violated with respect to a greater (but unspecified) amount of loans than the amount of loans previously stated in specific repurchase requests made by such trustees.

Residential Mortgage-Backed Securities Claims

The US Federal Housing Finance Agency (FHFA), acting for two US government-sponsored enterprises, Fannie Mae and Freddie Mac, filed lawsuits against 17 financial institutions in connection with Fannie Mae's and Freddie Mac's purchases of RMBS. The lawsuits allege, amongst other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. BBPLC and/or certain of its affiliates or former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of RMBS in which a Group subsidiary was lead or co-lead underwriter.

Both complaints demand, amongst other things: rescission and recovery of the consideration paid for the RMBS; and recovery for Fannie Mae's and Freddie Mac's alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to a number of other civil actions filed against BBPLC and/or certain of its affiliates by a number of other plaintiffs relating to purchases of RMBS. The Group considers that the claims against it are without merit and intends to defend them vigorously.

The original face amount of RMBS related to the claims against the Group in the FHFA actions and the other civil actions referred to above against the Group totalled approximately \$9bn, of which approximately \$2.6bn was outstanding as at 31 December 2013. Cumulative losses reported on these RMBS as at 31 December 2013 were approximately \$0.5bn. If the Group were to lose these actions the Group believes it could incur a loss of up to the outstanding amount of the RMBS at the time of judgement (taking into account further principal payments after 31 December 2013), plus any cumulative losses on the RMBS at such time and any interest, fees and costs, less the market value of the RMBS at such time and less any reserves taken to date. The Group has estimated the total market value of these RMBS as at 31 December 2013 to be approximately \$1.6bn. The Group may be entitled to indemnification for a portion of such losses.

Regulatory Inquiries

The Group has received inquiries, including subpoenas, from various regulatory and governmental authorities regarding its mortgage-related activities, and is cooperating with such inquiries.

Devonshire Trust**Background Information**

In January 2009, BBPLC commenced an action in the Ontario Superior Court seeking an order that its early terminations of two credit default swaps under an ISDA Master Agreement with the Devonshire Trust (Devonshire), an asset-backed commercial paper conduit trust, were valid. On the same day that Barclays terminated the swaps, Devonshire purported to terminate the swaps on the ground that BBPLC had failed to provide liquidity support to Devonshire's commercial paper when required to do so.

Status

In September 2011, the Ontario Superior Court ruled that BBPLC's early terminations were invalid, Devonshire's early terminations were valid and, consequently, Devonshire was entitled to receive back from BBPLC cash collateral of approximately C\$533m together with accrued interest. BBPLC appealed the Ontario Superior Court's decision to the Court of Appeal for Ontario. In July 2013, the Court of Appeal delivered its decision dismissing BBPLC's appeal. In September 2013, BBPLC sought leave to appeal the decision to the Supreme Court of Canada. In January 2014, the Supreme Court of Canada denied BBPLC's application for leave to appeal the decision of the Court of Appeal. BBPLC is considering its continuing options with respect to this matter. If the Court of Appeal's decision is unaffected by any future proceedings, BBPLC estimates that its loss would be approximately C\$500m, less any impairment provisions recognised to date. These provisions take full account of

the Court of Appeal's decision.

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Note 30: Legal, competition and regulatory matters continued

LIBOR and other Benchmarks Civil Actions

Following the settlements of the investigations referred to below in “Investigations into LIBOR, ISDAfix, other benchmarks and foreign exchange rates”, a number of individuals and corporates in a range of jurisdictions have threatened or brought civil actions against the Group in relation to LIBOR and/or other benchmarks. The majority of the USD LIBOR cases, which have been filed in various US jurisdictions, have been consolidated for pre-trial purposes in the US District Court for the Southern District of New York (MDL Court). The complaints are substantially similar and allege, amongst other things, that BBPLC and the other banks individually and collectively violated provisions of the US Sherman Act, the US Commodity Exchange Act (CEA), the US Racketeer Influenced and Corrupt Organizations Act (RICO) and various state laws by manipulating USD LIBOR rates. The lawsuits seek unspecified damages with the exception of three lawsuits, in which the plaintiffs are seeking a combined total of approximately \$910m in actual damages against all defendants, including BBPLC, plus punitive damages. Some of the lawsuits seek trebling of damages under the US Sherman Act and RICO. Certain of the civil actions are proposed class actions that purport to be brought on behalf of (amongst others) plaintiffs that (i) engaged in USD LIBOR-linked over-the-counter transactions (OTC Class); (ii) purchased USD LIBOR-linked financial instruments on an exchange (Exchange-Based Class); (iii) purchased USD LIBOR-linked debt securities (Debt Securities Class); (iv) purchased adjustable-rate mortgages linked to USD LIBOR; or (v) issued loans linked to USD LIBOR.

In March 2013, the MDL Court issued a decision dismissing the majority of claims against BBPLC and the other banks in three lead proposed class actions (Lead Class Actions) and three lead individual actions (Lead Individual Actions). Following the decision, plaintiffs in the Lead Class Actions sought permission to either file an amended complaint or appeal an aspect of the March 2013 decision. In August 2013, the MDL Court denied the majority of the motions presented in the Lead Class Actions. As a result, the Debt Securities Class has been dismissed entirely; the claims of the Exchange-Based Class have been limited to claims under the CEA; and the claims of the OTC Class have been limited to claims for unjust enrichment and breach of the implied covenant of good faith and fair dealing. Subsequent to the MDL Court's March 2013 decision, the plaintiffs in the Lead Individual Actions filed a new action in California state court (since moved to the MDL Court) based on the same allegations as those initially alleged in the proposed class action cases discussed above. Various plaintiffs may attempt to bring appeals of some or all of the MDL Court's decisions in the future.

Additionally, a number of other actions before the MDL Court remain stayed, pending further proceedings in the Lead Class Actions.

Until there are further decisions, the ultimate impact of the MDL Court's decisions will be unclear, although it is possible that the decisions will be interpreted by courts to affect other litigation, including the actions described below, some of which concern different benchmark interest rates.

BBPLC and other banks also have been named as defendants in other individual and proposed class actions filed in other US District Courts in which plaintiffs allege, similar to the plaintiffs in the USD LIBOR cases referenced above, that in various periods defendants either individually or collectively manipulated the USD LIBOR, Yen LIBOR, Euroyen TIBOR and/or EURIBOR rates. Plaintiffs generally allege that they transacted in loans, derivatives and/or other financial instruments whose values are affected by changes in USD LIBOR, Yen LIBOR, Euroyen TIBOR and/or EURIBOR, and assert claims under federal and state law. In October 2012, the US District Court for the Central District of California dismissed a proposed class action on behalf of holders of adjustable rate mortgages linked to USD LIBOR. Plaintiffs have appealed, and briefing of the appeal is complete.

In addition, BPLC has been granted conditional leniency from the Antitrust Division of the US Department of Justice (DOJ-AD) in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR. As a result of that grant of conditional leniency, BPLC is eligible for (i) a limit on liability to actual rather than treble damages if damages were to be awarded in any civil antitrust action under US antitrust law based on conduct covered by the conditional leniency and (ii) relief from potential joint-and-several liability in connection with such civil antitrust action, subject to BPLC satisfying the DOJ-AD and the court presiding over the civil litigation of its satisfaction of its cooperation obligations.

BPLC, BBPLC and BCI have also been named as defendants along with four former officers and directors of BBPLC in a proposed securities class action pending in the SDNY in connection with BBPLC's role as a contributor panel bank to LIBOR. The complaint asserts claims under Sections 10(b) and 20(a) of the US Securities Exchange Act 1934, principally alleging that BBPLC's Annual Reports for the years 2006 to 2011 contained misstatements and omissions concerning (amongst other things) BBPLC's compliance with its operational risk management processes and certain laws and regulations. The complaint also alleges that BBPLC's daily USD LIBOR submissions constituted false statements in violation of US securities law. The complaint was brought on behalf of a proposed class consisting of all persons or entities that purchased BPLC-sponsored American Depositary Receipts on a US securities exchange between 10 July 2007 and 27 June 2012. In May 2013, the court granted BBPLC's motion to dismiss the complaint in its entirety. Plaintiffs have appealed, and briefing of the appeal is complete.

In addition to US actions, legal proceedings have been brought or threatened against the Group in connection with alleged manipulation of LIBOR and EURIBOR, in a number of jurisdictions. The first of which in England and Wales, brought by Graiseley Properties Limited, is set down for trial in the High Court of Justice in April 2014. The number of such proceedings, the benchmarks to which they relate, and the jurisdictions in which they may be brought are anticipated to increase over time.

Civil Actions in Respect of Foreign Exchange Trading

Since November 2013, a number of civil actions have been filed in the SDNY on behalf of proposed classes of plaintiffs alleging manipulation of foreign exchange markets under the US Sherman Antitrust Act and New York state law and naming several

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international banks as defendants, including BBPLC.

Please see below 'Investigations into LIBOR, ISDAfix, other benchmarks and foreign exchange rates' for a discussion of competition and regulatory matters connected to "LIBOR and other Benchmark Civil Actions".

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Note 30: Legal, competition and regulatory matters continued**Investigations into LIBOR, ISDAfix, other Benchmarks and Foreign Exchange Rates**

The Financial Conduct Authority (FCA), the US Commodity Futures Trading Commission (CFTC), the US Securities and Exchange Commission (SEC), the US Department of Justice (DOJ) Fraud Section (DOJ-FS) and Antitrust Division (DOJ-AD), the European Commission (Commission), the United Kingdom (UK) Serious Fraud Office (SFO), the Monetary Authority of Singapore, the Japan Financial Services Agency, the prosecutors' office in Trani, Italy and various US state attorneys general are amongst various authorities conducting investigations (Investigations) into submissions made by BBPLC and other financial institutions to the bodies that set or compile various financial benchmarks, such as LIBOR and EURIBOR.

On 27 June 2012, BBPLC announced that it had reached settlements with the Financial Services Authority (FSA) (as predecessor to the FCA), the CFTC and the DOJ-FS in relation to their Investigations and BBPLC agreed to pay total penalties of £290m, which were reflected in operating expenses for 2012. The settlements were made by entry into a Settlement Agreement with the FSA, a Non-Prosecution Agreement (NPA) with the DOJ-FS and a Settlement Order Agreement with the CFTC (CFTC Order). In addition, BBPLC was granted conditional leniency from the DOJ-AD in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR.

The terms of the Settlement Agreement with the FSA are confidential. However, the Final Notice of the FSA, which imposed a financial penalty of £59.5m, is publicly available on the website of the FCA. This sets out the FSA's reasoning for the penalty, references the settlement principles and sets out the factual context and justification for the terms imposed. Summaries of the NPA and the CFTC Order are set out below. The full text of the NPA and the CFTC Order are publicly available on the websites of the DOJ and the CFTC, respectively.

In addition to a \$200m civil monetary penalty, the CFTC Order requires BBPLC to cease and desist from further violations of specified provisions of the US Commodity Exchange Act and take specified steps to ensure the integrity and reliability of its benchmark interest rate submissions, including LIBOR and EURIBOR, and improve related internal controls. Amongst other things, the CFTC Order requires BBPLC to:

- make its submissions based on certain specified factors, with BBPLC's transactions being given the greatest weight, subject to certain specified adjustments and considerations;
- implement firewalls to prevent improper communications including between traders and submitters;
- prepare and retain certain documents concerning submissions and retain relevant communications;
- implement auditing, monitoring and training measures concerning its submissions and related processes;
- make regular reports to the CFTC concerning compliance with the terms of the CFTC Order;
- use best efforts to encourage the development of rigorous standards for benchmark interest rates; and
- continue to cooperate with the CFTC's ongoing investigation of benchmark interest rates.

As part of the NPA, BBPLC agreed to pay a \$160m penalty. In addition, the DOJ agreed not to prosecute BBPLC for any crimes (except for criminal tax violations, as to which the DOJ cannot and does not make any agreement) related to BBPLC's submissions of benchmark interest rates, including LIBOR and EURIBOR, contingent upon BBPLC's satisfaction of specified obligations under the NPA. In particular, under the NPA, BBPLC agreed for a period of two years from 26 June 2012, amongst other things, to:

- commit no US crime whatsoever;
- truthfully and completely disclose non-privileged information with respect to the activities of BBPLC, its officers and employees, and others concerning all matters about which the DOJ inquires of it, which information can be used for any purpose, except as otherwise limited in the NPA;
- bring to the DOJ's attention all potentially criminal conduct by BBPLC or any of its employees that relates to fraud or violations of the laws governing securities and commodities markets; and
- bring to the DOJ's attention all criminal or regulatory investigations, administrative proceedings or civil actions brought by any governmental authority in the US by or against BBPLC or its employees that alleges fraud or violations of the laws governing securities and commodities markets.

BBPLC also agreed to cooperate with the DOJ and other government authorities in the US in connection with any investigation or prosecution arising out of the conduct described in the NPA, which commitment shall remain in force until all such investigations and prosecutions are concluded. BBPLC also continues to cooperate with the other ongoing investigations.

Following the settlements announced in June 2012, 31 US state attorneys general commenced their own investigations into LIBOR, EURIBOR and the Tokyo Interbank Offered Rate. The New York Attorney General, on behalf of this coalition of attorneys general, issued a subpoena in July 2012 to BBPLC (and subpoenas to a number of other banks) to produce wide-ranging information and has since issued additional information requests to BBPLC for both documents and transactional data. BBPLC is responding to these requests on a rolling basis. In addition, following the settlements the SFO announced in July 2012 that it had decided to investigate the LIBOR matter, in respect of which BBPLC has received and continues to respond to

requests for information.

The Commission has also been conducting investigations into the manipulation of, among other things, EURIBOR. On 4 December 2013, the Commission announced that it has reached a settlement with the Group and a number of other banks in relation to anti-competitive conduct concerning EURIBOR. The Group had voluntarily reported the EURIBOR conduct to the Commission and cooperated fully with the Commission's investigation. In recognition of this cooperation, the Group was granted full immunity from the financial penalties that would otherwise have applied.

The CFTC and the FCA are also conducting separate investigations into historical practices with respect to ISDAfix, amongst other benchmarks. BBPLC has received and continues to respond to subpoenas and requests for information.

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Various regulatory and enforcement authorities, including the FCA in the UK, the CFTC, the DOJ, the SEC and the New York State Department of Financial Services in the US, and the Hong Kong Monetary Authority are investigating foreign exchange trading, including possible attempts to manipulate certain benchmark currency exchange rates or engage in other activities that would benefit their trading positions. Certain of these investigations involve multiple market participants in various countries. BBPLC has received enquiries from certain of these authorities related to their particular investigations, and from other regulators interested in foreign exchange issues. The Group is reviewing its foreign exchange trading covering a several year period through October 2013 and is cooperating with the relevant authorities in their investigations.

For a discussion of litigation arising in connection with these investigations see “LIBOR and other Benchmarks Civil Actions” and “Civil Actions in Respect of Foreign Exchange Trading” above.

FERC

[Background Information](#)

The US Federal Energy Regulatory Commission (FERC) Office of Enforcement investigated the Group’s power trading in the western US with respect to the period from late 2006 through 2008. In October 2012, FERC issued an Order to Show Cause and Notice of Proposed Penalties (Order and Notice) against BBPLC and four of its former traders in relation to this matter. In the Order and Notice, FERC asserted that BBPLC and its former traders violated FERC’s Anti-Manipulation Rule by manipulating the electricity markets in and around California from November 2006 to December 2008, and proposed civil penalties and profit disgorgement to be paid by BBPLC. In July 2013, FERC issued an Order Assessing Civil Penalties in which it assessed a \$435m civil penalty against BBPLC and ordered BBPLC to disgorge an additional \$34.9m of profits plus interest (both of which are consistent with the amounts proposed in the Order and Notice).

[Status](#)

In October 2013, FERC filed a civil action against BBPLC and its former traders in the US District Court in California seeking to collect the penalty and disgorgement amount. FERC’s complaint in the civil action reiterates the allegations previously made by FERC in its October 2012 Order and Notice and its July 2013 Order Assessing Civil Penalties. BBPLC is vigorously defending this action. BBPLC and its former traders have filed a motion to dismiss the action for improper venue or, in the alternative, to transfer it to the SDNY, and a motion to dismiss the complaint for failure to state a claim. In September 2013, BBPLC was contacted by the criminal division of the US Attorney’s Office in the Southern District of New York and advised that such office is looking at the same conduct at issue in the FERC matter.

BDC Finance L.L.C.

[Background Information](#)

In October 2008, BDC Finance L.L.C. (BDC) filed a complaint in the Supreme Court of the State of New York (NY Supreme Court) alleging that BBPLC breached an ISDA Master Agreement and a Total Return Loan Swap Master Confirmation (Agreement) governing a total return swap transaction when it failed to transfer approximately \$40m of alleged excess collateral in response to BDC’s October 2008 demand (Demand). BDC asserts that under the Agreement BBPLC was not entitled to dispute the Demand before transferring the alleged excess collateral and that even if BBPLC was entitled to do so, it failed to dispute the Demand. BDC demands damages totalling \$297m plus attorneys’ fees, expenses, and prejudgement interest.

[Status](#)

In August 2012, the NY Supreme Court granted partial summary judgement for BBPLC, ruling that BBPLC was entitled to dispute the Demand, before transferring the alleged excess collateral, but determining that a trial was required to determine whether BBPLC actually did so. The parties cross-appealed to the Appellate Division of the NY Supreme Court (Appellate Division). In October 2013, the Appellate Division reversed the NY Supreme Court’s grant of partial summary judgement to BBPLC, and instead granted BDC’s motion for partial summary judgement, holding that BBPLC breached the Agreement. The Appellate Division did not rule on the amount of BDC’s damages, which has not yet been determined by the NY Supreme Court. On 25 November 2013, BBPLC filed a motion with the Appellate Division for reargument or, in the alternative, for leave to appeal to the New York Court of Appeals. In January 2014, the Appellate Division issued an order denying the motion for reargument and granting the motion for leave to appeal to the New York Court of Appeals. In September 2011, BDC’s investment advisor, BDCM Fund Adviser, L.L.C. and its parent company, Black Diamond Capital Holdings, L.L.C. also sued BBPLC and BCI in Connecticut state court for unspecified damages allegedly resulting from BBPLC’s conduct relating to the Agreement, asserting claims for violation of the Connecticut Unfair Trade Practices Act and tortious interference with business and prospective business relations. The parties have agreed to a stay of that case.

[Interchange Investigations](#)

The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate Visa and MasterCard credit and debit interchange rates. BPLC receives interchange fees, as a card issuer, from providers of card acquiring services to merchants. The key risks arising from the investigations comprise the potential for fines imposed by competition authorities, litigation and proposals for new legislation. BPLC may be required to pay fines or damages and could be affected by legislation amending interchange rules.

[Interest Rate Hedging Products](#)

See Note 28 Provisions.

[Credit Default Swap \(CDS\) Antitrust Investigations](#)

Both the Commission and the DOJ-AD have commenced investigations in the CDS market (in 2011 and 2009, respectively). In July 2013 the Commission addressed a Statement of Objections to BBPLC and 12 other banks, Markit and ISDA. The case relates to concerns that certain banks took collective action to delay and prevent the emergence of exchange traded credit

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derivative products. If the Commission does reach a decision in this matter it has indicated that it intends to impose sanctions. The Commission's sanctions can include fines. The DOJ-AD's investigation is a civil investigation and relates to similar issues. Proposed class actions alleging similar issues have also been filed in the US. The timing of these cases is uncertain.

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Note 30: Legal, competition and regulatory matters continued**Swiss/US Tax Programme**

In August 2013, the DOJ and the Swiss Federal Department of Finance announced the Programme for Non-Prosecution Agreements or Non-Targeted letters for Swiss Banks (Programme). This agreement is the consequence of a long-running dispute between the US and Switzerland regarding tax obligations of US Related Accounts held in Swiss banks.

Barclays Bank (Suisse) SA and Barclays Bank plc Geneva Branch are participating in the Programme, which requires a structured review of US accounts. This review is ongoing and the outcome of the review will determine whether any agreement will be entered into or sanction applied to Barclays Bank (Suisse) SA and Barclays Bank plc Geneva Branch. The deadline for completion of the review is 30 April 2014.

Investigations into Certain Agreements

The FCA has investigated certain agreements, including two advisory services agreements entered into by BBPLC with Qatar Holding LLC (Qatar Holding) in June and October 2008 respectively, and whether these may have related to BPLC's capital raisings in June and November 2008.

The FCA issued warning notices (Warning Notices) against BPLC and BBPLC in September 2013. The existence of the advisory services agreement entered into in June 2008 was disclosed but the entry into the advisory services agreement in October 2008 and the fees payable under both agreements, which amount to a total of £322m payable over a period of five years, were not disclosed in the announcements or public documents relating to the capital raisings in June and November 2008. While the Warning Notices consider that BPLC and BBPLC believed at the time that there should be at least some unspecified and undetermined value to be derived from the agreements, they state that the primary purpose of the agreements was not to obtain advisory services but to make additional payments, which would not be disclosed, for the Qatari participation in the capital raisings. The Warning Notices conclude that BPLC and BBPLC were in breach of certain disclosure-related listing rules and BPLC was also in breach of Listing Principle 3 (the requirement to act with integrity towards holders and potential holders of the company's shares). In this regard, the FCA considers that BPLC and BBPLC acted recklessly. The financial penalty in the Warning Notices against the group is £50m. BPLC and BBPLC continue to contest the findings.

The FCA proceedings are now subject to a stay pending progress in an investigation by the SFO's Fraud Office into the same agreements. The SFO's investigation is at an earlier stage and the Group has received and has continued to respond to requests for further information.

The DOJ and the SEC are undertaking an investigation into whether the Group's relationships with third parties who assist BPLC to win or retain business are compliant with the United States Foreign Corrupt Practices Act. They are also investigating the agreements referred to above including the two advisory services agreements. The US Federal Reserve has requested to be kept informed.

General

The outcomes of the matters disclosed in this note are difficult to predict. The Group has not disclosed an estimate of the potential financial effect on the Group of contingent liabilities arising from these matters where it is not practicable to do so or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able reliably to estimate probable losses. The Group may incur significant expense in connection with these matters, regardless of the ultimate outcome; furthermore these matters could expose the Group to any of the following: substantial monetary damages and fines; other penalties and injunctive relief; potential for additional civil or private litigation; potential for criminal prosecution in certain circumstances; potential regulatory restrictions on the Group's business; and/or a negative effect on the Group's reputation. There is also a risk that such investigations or proceedings may give rise to changes in law or regulation as part of a wider response by relevant law makers and regulators. Any of these risks, should they materialise, could have an adverse impact on the Group's operations, financial results and condition and prospects.

As mentioned above, the Group is subject to a NPA entered into with the DOJ in connection with the LIBOR investigations. Under the NPA, the Group has agreed that, for a period of two years from 26 June 2012, it will, amongst other things, commit no US crime whatsoever and will comply with certain obligations to provide information to and co-operate with US authorities. A breach of any of the NPA provisions could lead to prosecutions in relation to the Group's benchmark interest rate submissions and could have significant consequences for the Group's current and future business operations in the US.

The Group is engaged in various other legal, competition and regulatory matters both in the UK and a number of overseas jurisdictions. It is subject to legal proceedings by and against the Group which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

At the present time, the Group does not expect the ultimate resolution of any of these other matters not disclosed in this note to which it is a party to have a material adverse effect on its financial position. The Group has not disclosed an estimate of the

potential financial effect on the Group of contingent liabilities where it is not practicable to do so or, in cases where it is practicable, where disclosure could prejudice conduct of matters. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations or cash flow for a particular period, depending on, among other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

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Capital instruments, equity and reserves


The notes included in this section focus on the Group's loan capital and shareholders equity including issued share capital, retained earnings, other equity balances and interests of minority shareholders in our subsidiary entities (non-controlling interests). For more information on capital management and how the Group maintains sufficient capital to meet our regulatory requirements see pages 199 to 207.

Note 31: Subordinated liabilities
Accounting for subordinated debt

Subordinated debt is measured at amortised cost using the effective interest method under IAS 39.

Subordinated liabilities include accrued interest and comprise undated and dated loan capital as follows:

	2013 £m	2012 £m
Undated subordinated liabilities	6,127	6,740
Dated subordinated liabilities	15,568	17,278
Total subordinated liabilities	21,695	24,018

None of the Group's loan capital is secured. Regulatory capital differs from the amounts recorded in the balance sheet due to PRA requirements relating to: capital eligibility criteria; amortisation of principal in the final five years to maturity; and the exclusion of the impact of fair value hedging.

Undated subordinated liabilities

	Initial call date	Subordinated liability per balance sheet		Regulatory capital	
		2013 £m	2012 £m	2013 £m	2012 £m
Barclays Bank PLC issued					
Tier One Notes (TONs)					
6% Callable Perpetual Core Tier One Notes	2032	105	116	89	89
6.86% Callable Perpetual Core Tier One Notes (US\$681m)	2032	613	720	411	420
Reserve Capital Instruments (RCIs)					
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US\$533m)	2016	368	393	319	327
7.434% Step-up Callable Perpetual Reserve Capital Instruments (US\$347m)	2017	244	261	209	213
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	2019	114	117	95	95
14% Step-up Callable Perpetual Reserve Capital Instruments	2019	2,951	3,298	2,154	2,150
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	2036	107	113	81	81
Total Tier 1 capital instruments included in subordinated liabilities		4,502	5,018	3,358	3,375
Undated Notes					
6.875% Undated Subordinated Notes	2015	145	152	135	135
6.375% Undated Subordinated Notes	2017	146	153	133	133
7.7% Undated Subordinated Notes (US\$99m)	2018	67	72	61	62
8.25% Undated Subordinated Notes	2018	151	165	139	140
7.125% Undated Subordinated Notes	2020	198	215	158	158
6.125% Undated Subordinated Notes	2027	223	233	196	196
Junior Undated Floating Rate Notes (US\$121m)	Any interest payment date	66	75	66	133
Undated Floating Rate Primary Capital Notes Series 3	Any interest payment date	145	146	145	145
Bonds					
9.25% Perpetual Subordinated Bonds (ex-Woolwich PLC)	2021	91	99	75	75
9% Permanent Interest Bearing Capital Bonds	At any time	42	47	40	40
Loans					
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	2028	39	47	46	57
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	2028	58	72	69	86

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Barclays SLCSM Funding B.V. guaranteed by the Bank

6.140% Fixed Rate Guaranteed Perpetual Subordinated Notes

2015	254	246	259	265
Total undated subordinated liabilities	6,127	6,740	4,880	5,000

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Note 31: Subordinated liabilities continued

Undated loan capital

Undated loan capital is issued by the Bank and its subsidiaries for the development and expansion of their business and to strengthen their capital bases. The principal terms of the undated loan capital are described below:

Subordination

All undated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital in the following order: Junior Undated Floating Rate Notes; other issues of Undated Notes, Bonds and Loans-ranking pari passu with each other; followed by TONs and RCIs-ranking pari passu with each other.

Interest

All undated loan capital bears a fixed rate of interest until the initial call date, with the exception of the 9% Bonds which are fixed for the life of the issue, and the Junior and Series 3 Undated Notes which are floating rate.

After the initial call date, in the event that they are not redeemed, the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes will bear interest at rates fixed periodically in advance for five year periods based on market rates. All other undated loan capital except the two floating rate Undated Notes will bear interest, and the two floating rate Undated Notes currently bear interest, at rates fixed periodically in advance based on London interbank rates.

Payment of interest

Barclays Bank PLC is not obliged to make a payment of interest on its Undated Notes, Bonds and Loans excluding the 7.7% Undated Notes, 8.25% Undated Notes, 9.25% Bonds and 6.140% Perpetual Notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. The Bank is not obliged to make a payment of interest on its 9.25% Perpetual Subordinated Bonds if, in the immediately preceding 12 months' interest period, a dividend has not been paid on any class of its share capital. Interest not so paid becomes payable in each case if such a dividend is subsequently paid or in certain other circumstances. During the year, the Bank declared and paid dividends on its ordinary shares and on all classes of preference shares.

No payment of principal or any interest may be made unless the Bank satisfies a specified solvency test.

The Bank may elect to defer any payment of interest on the 7.7% Undated Notes and 8.25% Undated Notes. Until such time as any deferred interest has been paid in full, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares, preference shares, or other share capital or satisfy any payments of interest or coupons on certain other junior obligations.

The Issuer and the Bank may elect to defer any payment of interest on the 6.140% Perpetual Notes. However, any deferred interest will automatically become immediately due and payable on the earlier of: (i) the date on which any dividend or other distribution or interest or other payment is made in respect of any pari passu or any junior obligations or on which any pari passu or any junior obligations are purchased, (ii) the date of redemption or purchase of the 6.140% Perpetual Notes and (iii) certain other events including bankruptcy, liquidation or winding up of the Issuer or the Bank.

The Bank may elect to defer any payment of interest on the RCIs. Any such deferred payment of interest must be paid on the earlier of: (i) the date of redemption of the RCIs, (ii) the coupon payment date falling on or nearest to the tenth anniversary of the date of deferral of such payment, and (iii) in respect of the 14% RCIs only, substitution. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

The Bank may elect to defer any payment of interest on the TONs if it determines that it is, or such payment would result in it being, in non-compliance with capital adequacy requirements and policies of the PRA. Any such deferred payment of interest will only be payable on a redemption of the TONs. Until such time as the Bank next makes a payment of interest on the TONs, neither the Bank nor Barclays PLC may (i) declare or pay a dividend, subject to certain exceptions, on any of their respective ordinary shares or Preference Shares, or make payments of interest in respect of the Bank's Reserve Capital Instruments and (ii) certain restrictions on the redemption, purchase or reduction of their respective share capital and certain other securities also apply.

Repayment

All undated loan capital is repayable, at the option of the Bank generally in whole at the initial call date and on any subsequent coupon or interest payment date or in the case of the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes on any fifth anniversary after the initial call date. In addition, each issue of undated loan capital is repayable, at the option of the Bank, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest. Any repayments require the prior approval of the PRA.

Other

All issues of undated loan capital have been made in the Euro currency market and/or under Rule 144A, and no issues have been registered under the US Securities Act of 1933.

All issues of undated subordinated liabilities are non-convertible.

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Note 31: Subordinated liabilities continued
Dated subordinated liabilities

			Subordinated liabilities per		Regulatory capital	
			balance sheet			
	Initial call date	Maturity date	2013 £m	2012 £m	2013 £m	2012 £m
Barclays Bank PLC issued						
5.015% Subordinated Notes (US\$150m)		2013	–	96	–	19
4.875% Subordinated Notes (€750m)		2013	–	636	–	122
Callable Fixed/Floating Rate Subordinated Notes (€1,000m)	2014	2019	866	861	833	815
4.38% Fixed Rate Subordinated Notes (US\$75m)		2015	49	52	18	27
4.75% Fixed Rate Subordinated Notes (US\$150m)		2015	97	103	36	56
5.14% Lower Tier 2 Notes (US\$1,094m)	2015	2020	706	885	662	773
6.05% Fixed Rate Subordinated Notes (US\$2,250m)		2017	1,073	1,635	740	1,391
Floating Rate Subordinated Notes (€40m)		2018	33	33	33	33
6% Fixed Rate Subordinated Notes (€1,750m)		2018	1,554	1,519	1,459	1,427
CMS-Linked Subordinated Notes (€100m)		2018	87	85	83	82
CMS-Linked Subordinated Notes (€135m)		2018	116	114	113	110
Fixed/Floating Rate Subordinated Callable Notes	2018	2023	570	608	500	500
7.75% Contingent Capital Notes (US\$1,000m)	2018	2023	603	–	606	–
Floating Rate Subordinated Notes (€50m)		2019	41	40	42	41
6% Fixed Rate Subordinated Notes (€1,500m)		2021	1,356	1,333	1,251	1,223
9.5% Subordinated Bonds (ex-Woolwich plc)		2021	306	338	199	200
Subordinated Floating Rate Notes (€100m)		2021	82	80	80	82
10% Fixed Rate Subordinated Notes		2021	2,265	2,446	1,962	1,962
10.179% Fixed Rate Subordinated Notes (US\$1,521m)		2021	991	1,133	921	940
Subordinated Floating Rate Notes (€50m)		2022	42	41	42	41
6.625% Fixed Rate Subordinated Notes (€1,000m)		2022	957	954	834	815
7.625% Contingent Capital Notes (US\$3,000m)		2022	1,649	1,848	1,815	1,855
Subordinated Floating Rate Notes (€50m)		2023	42	41	41	41
5.75% Fixed Rate Subordinated Notes		2026	742	810	600	600
5.4% Reverse Dual Currency Subordinated Loan (Yen 15,000m)		2027	74	90	87	108
6.33% Subordinated Notes		2032	55	62	50	50
Subordinated Floating Rate Notes (€100m)		2040	83	82	83	82
Absa Bank Limited issued						
6.25% CPI-linked Subordinated Callable Notes (ZAR 1,886m)	2013	2018	–	169	–	–
8.8% Subordinated Fixed Rate Callable Notes (ZAR 1,725m)	2014	2019	102	136	102	129
6.00% CPI-linked Subordinated Callable Notes (ZAR 3,000m)	2014	2019	228	275	–	–
8.1% Subordinated Callable Notes (ZAR 2,000m)	2015	2020	121	156	118	149
10.28% Subordinated Callable Notes (ZAR 600m)	2017	2022	35	44	–	–
Subordinated Callable Notes (ZAR 400m)	2017	2022	23	29	–	–
Subordinated Callable Notes (ZAR 1,805m)	2017	2022	105	132	105	132
Subordinated Callable Notes (ZAR 2,007m)	2018	2023	116	147	116	147
8.295% Subordinated Callable Notes (ZAR 1,188m)	2018	2023	69	87	69	87
5.50% CPI-linked Subordinated Callable Notes (ZAR 1,500m)	2023	2028	107	129	–	–
Other capital issued by Barclays Africa and Japan		2013-2018	223	49	26	27
Total dated subordinated liabilities			15,568	17,278	13,626	14,066

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Note 31: Subordinated liabilities continued**Dated loan capital**

Dated loan capital is issued by the Bank and respective subsidiaries for the development and expansion of their business and to strengthen their respective capital bases. The principal terms of the dated loan capital are described below:

Subordination

All dated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors but before the claims of the undated loan capital and the holders of their equity. The dated loan capital issued by subsidiaries, are similarly subordinated.

Interest

Interest on the Floating Rate Notes are fixed periodically in advance, based on the related interbank or local central bank rates.

Interest on the 7.75% Contingent Capital Notes is fixed until the call date. After the call date, in the event that it is not redeemed, the interest rate will be re-set and fixed until maturity based on a market rate.

Repayment

Those Notes with a call date are repayable at the option of the issuer, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole. The remaining dated loan capital outstanding at 31 December 2013 is redeemable only on maturity, subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law or, to certain changes in legislation or regulations.

Any repayments prior to maturity require, in the case of the Bank, the prior approval of the PRA, or in the case of the overseas issues, the approval of the local regulator for that jurisdiction.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

The other capital issued by Barclays Kenya, Botswana and Zambia includes amounts of £14m (2012: £15m) issued by Barclays Botswana that are convertible. These are repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part and some only in whole.

Other

The 7.625% Contingent Capital Notes will be automatically transferred from investors to Barclays PLC (or another entity within the Group) for nil consideration should the Core Tier 1 or Common Equity Tier 1 capital of the Group (as relevant at the time) fall below 7.0% on certain dates as specified in the terms.

The 7.75% Contingent Capital Notes will be automatically written-down and investors will lose their entire investment in the notes should the Core Tier 1 or Common Equity Tier 1 capital of the Group (as relevant at the time) fall below 7.0% on certain dates as specified in the terms.

The 5.14% Lower Tier 2 Notes and the 7.625% Contingent Capital Notes and the 7.75% Contingent Capital Notes were registered under the US Securities Act of 1933. All other issues of dated loan capital have been made in the Euro currency market, local markets and/or under Rule 144A.

Note 32: Ordinary shares, share premium, and other equity**Called up share capital, allotted and fully paid**

	Number of shares m	Ordinary shares £m	Share premium £m	Total share capital and share premium £m	Other equity instruments £m
As at 1 January 2013	12,243	3,061	9,416	12,477	—
Issued to staff under share incentive plans	257	63	727	790	—
Warrants exercised	379	95	655	750	—
Rights issue	3,219	805	5,025	5,830	—
AT1 equity issuance	—	—	—	—	2,063
Other issuances	15	4	36	40	—
As at 31 December 2013	16,113	4,028	15,859	19,887	2,063
As at 1 January 2012	12,199	3,050	9,330	12,380	—
Issued to staff under share incentive plans	44	11	86	97	—
As at 31 December 2012	12,243	3,061	9,416	12,477	—

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Note 32: Ordinary shares, share premium, and other equity continued **Called Up Share Capital**

Called up share capital comprises 16,113m (2012: 12,243m) ordinary shares of 25p each. The increase was primarily due to the Barclays PLC rights issue, announced on 30 July 2013. The rights issue of one new ordinary share for every four existing ordinary shares at an issue price of 185 pence per new ordinary share took place in Q4 2013, under which 3,219m new shares were issued.

Warrants

On 31 October 2008, Barclays PLC issued warrants to subscribe for up to 1,516.9m new ordinary shares at a price of £1.97775, in conjunction with a simultaneous issue by Barclays Bank PLC of Reserve Capital Instruments.

On 13 February 2013, Barclays PLC and Barclays Bank PLC entered into an agreement with Deutsche Bank AG and Goldman Sachs International (the warrant holders) pursuant to which the warrant holders agreed to exercise in aggregate 379m outstanding warrants, constituted by a warrant deed poll dated 31 October 2008 (the warrants), to subscribe for an equivalent number of new ordinary shares in Barclays PLC. No other warrants to subscribe for shares remain outstanding (2012: 379.2m).

Conditional upon receipt of this amount, Barclays PLC agreed to contribute such amount to the capital of Barclays Bank PLC. As a result, Barclays Bank PLC received a net £743.7m of Core Tier 1 equity capital. The transaction involved the payment of an aggregate £6.3m warrant exercise payment by Barclays Bank PLC to the warrant holders, in respect of the early exercise of the warrants.

As at 31 December 2013, there were no unexercised warrants (2012: 379.2m).

Share repurchase

At the 2013 AGM on 25 April 2013, Barclays PLC was authorised to repurchase 1,286m of its ordinary shares of 25p. The authorisation is effective until the AGM in 2014 or the close of business on 30 June 2014, whichever is the earlier. No share repurchases were made during either 2013 or 2012.

Other equity instruments

Other equity instruments include Additional Tier 1 (AT1) securities, which consisted of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities with principal amounts of \$2bn and €1bn. The AT1 securities are perpetual securities with no fixed maturity or redemption date.

The AT1 securities were issued by Barclays Plc for general corporate purposes and to strengthen further its regulatory capital base, which may include investments in, or capital contributions to, its subsidiaries. The principal terms of the AT1 securities are described below:

- AT1 securities rank behind the claims against Barclays Plc of (i) unsubordinated creditors; (ii) claims which are expressed to be subordinated to the claims of unsubordinated creditors of Barclays Plc but not further or otherwise; or (iii) claims which are, or are expressed to be, junior to the claims of other creditors of Barclays Plc, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, *pari passu* with, or junior to, the claims of holders of the AT1 securities.
- AT1 securities bear a fixed rate of interest until the initial call date. After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five year periods based on market rates.
- Interest on the AT1 securities will be due and payable only at the sole discretion of Barclays Plc, and Barclays Plc has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. There are also certain restrictions on the payment of interest as specified in the terms.
- AT1 securities are undated and are repayable, at the option of Barclays Plc, in whole at the initial call date, or on any fifth anniversary after the initial call date. In addition, the AT1 securities are repayable, at the option of Barclays Plc, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA.

All AT1 securities will be converted into ordinary shares of Barclays Plc, at a pre-determined price, should the fully loaded CET1 ratio of the Barclays Plc Group fall below 7.0% on certain dates as specified in the terms.

Note 33: Reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, net of the effects of hedging.

As at 31 December 2013 there was a debit balance of £1,142m in the currency translation reserve (2012: £59m credit). The decrease of £1,201m (2012: £1,289m) principally reflected the depreciation of ZAR and USD against GBP. The currency translation reserves associated with non-controlling interests decreased by £566m (2012: £259m) due to the depreciation of ZAR against GBP.

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The impact of the currency translation reserve recognised in the income statement during the year was a £5m net gain (2012: £24m).

Available for sale reserve

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.

As at 31 December 2013 there was a credit balance of £148m in the available for sale reserve (2012: £527m credit). The decrease of £379m (2012: £502m increase) principally reflected the £2.7bn losses from changes in fair value on Government Bonds offset by £2.4bn gains transferred from the income statement due to fair value hedging.

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Note 33: Reserves continued**Cash flow hedging reserve**

The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transactions affect profit or loss.

As at 31 December 2013 there was a credit balance of £273m (2012: £2,099m credit) in the cash flow hedging reserve. The decrease of £1,826m (2012: £657m increase) principally reflected a £1,881m decrease in the fair value of interest rate swaps held for hedging purposes as interest rate forward curves increased, and £509m gains transferred to net profit, partly offset by a deferred tax credit of £553m.

Other reserves and treasury shares

Other reserves represent the excess of the repurchase price over the nominal of redeemed ordinary and preference shares issues by the Group.

Treasury shares are deducted from shareholders' equity within other reserves. A transfer is made to retained earnings in line with the vesting of treasury shares held for the purposes of share based payments.

The treasury shares primarily relate to Barclays PLC shares held in relation to the Group's various share schemes. These schemes are described in Note 36 Share Based Payments.

As at 31 December 2013 there was a debit balance of £41m (2012: £22m debit) in other reserves relating to treasury shares. The increase principally reflected £1,066m (2012: £979m) of net purchases of treasury shares held for the purposes of employee share schemes, partially offset by £1,047m (2012: £946m) transferred to retained earnings reflecting the vesting of deferred share based payments.

Note 34: Non-controlling interests

	Profit attributable to Non-Controlling interest		Equity attributable to Non-Controlling interest		Dividends paid to Non-Controlling interest	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Barclays Bank PLC issued:						
– Preference shares	410	462	5,868	5,927	471	465
– Upper Tier 2 instruments	2	4	485	591	–	–
Barclays Africa Group Limited ^a	343	304	2,204	2,737	342	229
Other non-controlling interests	2	35	7	116	–	–
Total	757	805	8,564	9,371	813	694

Subsidiaries of the Group that give rise to significant non-controlling interests are Barclays Bank PLC and Barclays Africa Group Limited.

Barclays Bank PLC

Barclays PLC holds 100% of the voting rights of Barclays Bank PLC. As at 31 December 2013, Barclays Bank PLC has in issue preference shares and Upper Tier 2 instruments, representing 12% of its equity in its separate financial statements (2012: 15%). Preference share dividends and redemptions are typically at the discretion of Barclays Bank PLC. The payment of Upper Tier 2 instrument coupons and principal are typically at the discretion of Barclays Bank PLC, except for coupon payments that became compulsory where Barclays PLC has declared or paid a dividend on ordinary shares in the preceding six month period. Preference share and Upper Tier 2 instrument holders typically only have rights to redeem in the event of insolvency.

Instrument	2013 £m	2012 £m
Preference Shares:		
6.00% non cumulative callable preference shares	744	746
6.278% non cumulative callable preference shares	548	550
4.875% non cumulative callable preference shares	687	689
4.75% non cumulative callable preference shares	967	1,010
6.625% non cumulative callable preference shares	406	407
7.1% non cumulative callable preference shares	657	660
7.75% non cumulative callable preference shares	550	552
8.125% non cumulative callable preference shares	1,309	1,313
Total Barclays Bank PLC Preference Shares	5,868	5,927
Barclays Africa Group Limited ^a	267	338
Total	6,135	6,265
Upper Tier 2 Instruments:		
Undated Floating Rate Primary Capital Notes Series 1	222	276

Undated Floating Rate Primary Capital Notes Series 2	263	315
Total Upper Tier 2 Instruments	485	591

Note

- a Barclays Africa Group Limited was created following restructuring of Barclays African entities. The preference shares are issued by Absa Bank Limited. Some other non-controlling interests in 2012 are now included into Barclays Africa Group Limited.

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Note 34: Non-controlling interests continued

Changes in ownership interest

During the year, the Group disposed of its shares in Barclays Africa Limited^a, which at that time included Barclays interests in a number of African businesses and Absa Group Limited in exchange for an additional 6.7% of Barclays Africa Group Limited, increasing its ownership interests in that entity from 55.6% to 62.3%. Non-controlling interests hold 37.7% of the voting capital of Barclays Africa Group Limited, representing 37.7% of that company's equity on 31 December 2013. The minority shareholders in Absa Group Limited, were offered shares in Barclays Africa Group Limited in exchange for their shares. At 31 December 2012, non-controlling interests held 44.4% of the voting capital of Absa Group Limited, which was 44.4% of that company's equity.

Following this disposal, the Group retained control of both Barclays Africa Limited and Absa Group Limited, through its shareholding in Barclays Africa Group Limited and continues to consolidate these businesses. Accordingly, the transaction was recorded entirely in shareholders' equity.

The effects of the transaction on the equity attributable to shareholders of the parent was as follows:

	£m
Proceeds received – additional shares in Barclays Africa Group Limited at fair value	282
Share of net assets in Barclays Africa Limited transferred to non-controlling interests	(188)
Increase in equity attributable to the shareholders of the parent	94

Summarised financial information for Barclays Africa Group Limited (2012: Absa Group Limited)

Summarised financial information for Barclays Africa Group Limited, before intercompany eliminations, is set out below:

	Barclays Africa Group Limited 2013 £m	Absa Group Limited 2012 £m
Income statement information		
Total income net of insurance claims	3,356	3,560
Profit after tax	807	649
Total other comprehensive income for the year, after tax	(71)	56
Total comprehensive income for the year	736	705
Statement of Cashflows information		
Net cash inflows	109	120
Balance sheet information		
Total assets	55,616	59,297
Total liabilities	50,500	53,637
Shareholder equity	5,116	5,660

Full financial statements for Barclays Africa Group Limited can be obtained at www.barclaysafrica.com/barclaysafrica/Investor-Relations.

Protective rights of non-controlling interests

Barclays Africa Group Limited

Barclays owns 62.3% of the share capital of Barclays Africa Group Limited. Certain resolutions of Barclays Africa require a 75% approval which restricts Barclays PLC's rights to access the assets of Barclays Africa and its group companies. 75% approval would be required to dispose of all or the greater part of the Barclays Africa Group Limited's assets or to complete the voluntary winding up of the entity.

Barclays Bank PLC

Barclays Bank PLC also has in issue preference shares and Upper Tier 2 instruments which are non-controlling interests to the Group. Under the terms of these instruments, Barclays PLC may not pay dividends on ordinary shares until a dividend is next paid on these instruments or the instruments are redeemed or purchased by Barclays Bank PLC. There are no restrictions on the ability of Barclays Bank PLC's ability to remit capital to the Parent as a result of these issued instruments.

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Note

a Removed the Barclays Africa business in Botswana, Ghana, Mauritius, Seychelles, Tanzania, Uganda, Kenya, Zambia and the Barclays Africa regional office.

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Employee benefits



The notes included in this section focus on the costs and commitments associated with employing our staff.

Note 35: Staff costs

Accounting for staff costs

The Group applies IAS 19 *Employee benefits* (revised 2011) in its accounting for most of the components of staff costs.

Short-term employee benefits – salaries, and accrued performance costs, social security and the Bonus Payroll Tax are recognised over the period in which the employees provide the services to which the payments relate.

Performance costs – recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the services.

Deferred cash bonus awards and deferred share bonus awards are made to employees to incentivise performance over the vesting period. To receive payment under an award, employees must provide service over the vesting period, typically three years from the grant date. The period over which the expense for deferred cash and share bonus awards is recognised is based upon the common understanding between the employee and the Group and the terms and conditions of the award. The Group considers that it is appropriate to recognise the awards over the period from the date of grant to the date that the awards vest as this is the period over which the employees understand that they must provide service in order to receive awards. The table on page 99 details the relevant award dates, payment dates and the period in which the income statement charge arises for bonuses. No expense has been recognised in 2013 for the deferred bonuses granted in March 2014, as they are dependent upon future performance rather than performance during 2013.

The accounting policies for share based payments and pensions and other post retirement benefits are under Note 36 and Note 37 respectively.

	2013 £m	2012 £m	2011 £m
Current year bonus accrual	957	867	955
Deferred bonus charge	1,147	1,223	995
Commissions, commitments and other incentives	450	335	577
Performance costs	2,554	2,425	2,527
Salaries	4,981	5,254	5,498
Social security costs	715	685	716
Post retirement benefits	688	612	836
Allowances and trading incentives	211	262	302
Other compensation costs	467	521	616
Total compensation costs^a	9,616	9,759	10,495
Other resourcing costs			
Outsourcing	1,084	999	842
Redundancy and restructuring	687	68	301
Temporary staff costs	551	481	477
Other	217	160	238

Total other resourcing costs	2,539	1,708	1,858
Total staff costs	12,155	11,467	12,353

2013

Total staff costs increased 6% to £12,155m, principally reflecting a £619m increase in redundancy and restructuring charges, a 5% increase in performance costs and a 9% increase in outsourcing. Redundancy and restructuring charges increased £619m to £687m, due to a number of Transform initiatives.

Performance costs increased 5% to £2,554m, reflecting a 10% increase to £957m in charges for current year cash and share bonuses and a 34% increase in commissions, commitments and other incentives to £450m. This was offset by a 6% decrease in the charge for deferred bonuses to £1,147m.

The average total number of persons employed by the Group was 140,300 (2012: 143,700).

Note

a In addition, £346m of Group compensation (2012: £44m; 2011: £35m) was capitalised as internally generated software.

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Note 35: Staff costs continued

2012

Total staff costs reduced 7% to £11,467m, principally reflecting a 4% reduction in salaries, a 27% reduction in post-retirement benefits and reduction in redundancy and retirement costs. Salaries reduced by 4% to £5,254m reflecting a moderately declining average headcount. The post-retirement benefits charge decreased 27% to £612m, primarily reflecting scheme closures and benefit changes in the US and Spain, and lower interest cost for the UK Retirement Fund. The post-retirement benefits charge includes £311m (2011: £318m; 2010: £297m) in respect of defined contribution schemes and £301m (2011: £518m; 2010: £297m) in respect of defined benefit schemes.

Performance costs reduced 4% to £2,425m, reflecting a 22% reduction in charges for current year cash and share bonuses and sales commissions, commitments and other incentives of £1,202m, partially offset by a 23% increase in the charge for deferred bonuses from prior years to £1,223m.

The Group incentive awards granted (which exclude charges relating to prior year deferrals but include current year awards vesting in future years) were down 16% to £2.2bn. Investment Bank incentive awards were down 20% to £1.4bn. Redundancy and restructuring cost decreased 77% to £68m due to significant restructuring in 2011.

The UK Government applied a bank payroll tax of 50% to all discretionary bonuses over £25,000 awarded to UK bank employees between 9 December 2009 and 5 April 2010. The total bank payroll tax paid was £437m, of which £397m was recognised between 2009 and 2011. For 2012, a charge of £34m has been recognised in relation to prior year deferrals, with the remaining £6m recognised in 2013.

The average total number of persons employed by the Group was 143,700 (2011: 149,700).

Note 36: Share based payments

Accounting for share based payments

The Group applies IFRS 2 *Share Based Payments* in accounting for employee remuneration in the form of shares.

Employee incentives include awards in the form of shares and share options, as well as offering employees the opportunity to purchase shares on favourable terms. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions – such as continuing to make payments into a share based savings scheme.

The charge for the year arising from share based payment schemes was as follows:

	Charge for the year		
	2013 £m	2012 £m	2011 £m
Share Value Plan	576	610	634
Executive Share Award Scheme	72	115	101
Others	54	58	137
Total equity settled	702	783	872
Cash settled	25	35	34
Total share based payments	727	818	906

The terms of the main current plans are as follows:

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Share Value Plan (SVP)

The SVP was introduced in March 2010 and approved by shareholders (for Executive Director participation and use of new issue shares) at the AGM in April 2011. SVP awards are granted to participants in the form of a conditional right to receive Barclays PLC shares or provisional allocations of Barclays PLC shares which vest or are considered for release over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on release of a SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

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For the year ended 31 December 2013 continued

Note 36: Share based payments continued**Executive Share Award Scheme (ESAS)**

ESAS awards were granted to participants in the form of a provisional allocation of Barclays PLC shares. The total value of the ESAS award made to the employee was dependent upon the business unit, Group and individual employee performance. The ESAS award must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and are considered for release upon achieving continued service for three and five years from the date of award. ESAS awards were also made to eligible employees for recruitment purposes under JSAP (Joiners Share Award Plan). All awards are subject to potential forfeiture if the individual resigns and commences work with a competitor business.

Other schemes

In addition to the above schemes, the Group operates a number of other schemes including schemes operated by and settled in the shares of subsidiary undertakings, none of which are individually or in aggregate material in relation to the charge for the year or the dilutive effect of outstanding share options. Included within other schemes are Sharesave (both UK and overseas), and the Barclays Long Term Incentive Plan; the latter was introduced and approved at the AGM in April 2011.

Share option and award plans

The weighted average fair value per award granted and weighted average share price at the date of exercise/release of shares during the year was:

	Weighted average fair value per award granted in year		Weighted average share price at exercise/release during year	
	2013 £m	2012 £m	2013 £m	2012 £m
SVP ^{a,b}	3.04	2.41	3.04	2.39
ESAS ^{a,c}	3.04	1.69	3.04	2.38
Others ^a	0.81-3.08	0.63-2.45	2.64-3.22	2.14-2.45

SVP and ESAS are nil cost awards and nil cost options respectively on which the performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards/options is based on the market value at that date.

Movements in options and awards

The movement in the number of options and awards for the major schemes and the weighted average exercise price of options was:

	SVP ^{a,b}		ESAS ^{a,c}		Others ^{a,d}			
	Number (000s)		Number (000s)		Number (000s)		Weighted average ex. price (£)	
	2013	2012	2013	2012	2013	2012	2013	2012
Outstanding at beginning of year/acquisition date	540,872	392,638	77,867	252,028	200,976	214,363	1.70	1.93
Granted in the year	233,513	345,165	5,051	3,571	37,128	114,305	2.28	1.44
Rights issue adjustments	40,684	–	1,622	–	18,008	–	1.58	–
Exercised/released in the year	(265,082)	(170,672)	(60,385)	(153,425)	(17,367)	(60,150)	2.19	1.47
Less: forfeited in the year	(25,727)	(26,259)	(7,352)	(24,307)	(15,031)	(48,970)	1.61	1.76
Less: expired in the year	–	–	–	–	(8,528)	(18,572)	3.03	2.79
Outstanding at end of year	524,260	540,872	16,803	77,867	215,186	200,976	1.55	1.70
Of which exercisable:	60	29	4,764	20,178	16,213	20,302	2.52	3.21

Certain of the Group's share option plans enable certain directors and employees to subscribe for new ordinary shares of Barclays PLC. For accounting for treasury shares see Note 33 Reserves.

Notes

a Options/award granted over Barclays PLC shares.

b Nil cost award and therefore the weighted average exercise price was nil.

c Nil cost options and therefore there was no weighted average exercise price.

d The number of awards within others at the end of the year principally relates to Sharesave (number of awards exercisable at end of year was 2,789,460).

The weighted average exercise price relates to Sharesave.

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Note 36: Share based payments continued

The weighted average contractual remaining life and number of options and awards outstanding (including those exercisable) at the balance sheet date are as follows:

	2013		2012	
	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)
SVP ^{a,b}	1	524,260	1	540,872
ESAS ^{a,c}	—	16,803	—	77,867
Others ^a	0-3	215,186	0-4	200,976

There were no significant modifications to the share based payments arrangements in the years 2013, 2012 and 2011.

As at 31 December 2013, the total liability arising from cash-settled share based payments transactions was £26m (2012: £47m).

Holdings of Barclays PLC Shares

Various employee benefit trusts established by the Group, hold shares in Barclays PLC to meet obligations under the Barclays share based payment schemes. The total number of Barclays shares held in these employee benefit trusts at 31 December 2013 was 3.2 million (2012: 6.8 million). Dividend rights have been waived on all of these shares. The total market value of the shares held in trust based on the year end share price of £2.72 (2012: £2.62) was £8.7m (2012: £17.8m).

Note 37: Pensions and post retirement benefits

Accounting for pensions and post retirement benefits

The Group operates a number of pension schemes including defined contribution, defined benefit and post-employment benefit schemes.

Defined contribution schemes – the Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

Defined benefit schemes – the Group recognises its obligation to members of the scheme at the period end, less the fair value of the scheme assets after applying the asset ceiling test. Actuarial gains and losses are recognised in other comprehensive income in the reporting period in which they occur. Each scheme's obligations are calculated using the projected unit credit method on the assumptions set out in the note below. Scheme assets are stated at fair value as at the period end.

IAS 19 (revised) has been adopted by the Group from the mandatory effective date of 1 January 2013 and application is retrospective. The main change is that the Group recognises the liabilities (or assets) arising from its defined benefit pension schemes in full. The deferral of actuarial gains and losses, which was an option applied by Barclays under the previous standard, is no longer permitted. The expected return on assets assumption has also been replaced by an assumed return on assets in line with the discount rate.

Changes in pension scheme liabilities or assets (remeasurements) that do not arise from regular pension cost, interest on net defined benefit liabilities or assets, past service costs, settlements or contributions to the plan, are recognised in other comprehensive income. For further details on the impacts of IAS 19 (Revised) restatements please refer to Note 46.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Post-employment benefits – the cost of providing health care benefits to retired employees is accrued as a liability in the financial statements over the period that the employees provide services to the Group, using a methodology similar to that for defined benefit pension schemes.

Notes

a Options/award granted over Barclays PLC shares.

b Nil cost award and therefore the weighted average exercise price was nil.

c Nil cost options and therefore there was no weighted average exercise price.

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For the year ended 31 December 2013 continued

Note 37: Pensions and post retirement benefits continued**Pension schemes****UK Retirement Fund (UKRF)**

The UKRF is the Group's main scheme, representing 91% of the Group's total retirement benefit obligations. The UKRF was closed to new entrants on 1 October 2012, and comprises ten sections, the most significant of which are:

- Afterwork, which comprises a contributory cash balance defined benefit element, and a voluntary defined contribution element. The cash balance element is accrued each year and revalued until Normal Retirement Age in line with the increase in Retail Price Index (RPI) (up to a maximum of 5% pa). An investment related increase of up to 2% a year may also be added at Barclays discretion. Between 1 October 2003 and 1 October 2012 the majority of new employees outside of Investment Bank were eligible to join this section. The costs of ill-health retirements and death in service benefits for Afterwork members are borne by the UKRF. The main risks that Barclays runs in relation to Afterwork are more limited than in traditional final salary pension plans, being the risk of needing to make additional contributions if pre-retirement investment returns are not sufficient to provide for the benefits. The discretionary element of the benefit provides a partial buffer against this risk.
- The Pension Investment Plan (PIP): a defined contribution section providing benefits for Investment Bank employees from 1 July 2001 to 1 October 2012.
- The 1964 Pension Scheme: most employees recruited before July 1997 built up benefits in this non-contributory defined benefit scheme in respect of service up to 31 March 2010. Pensions were calculated by reference to service and pensionable salary. From 1 April 2010 members became eligible to accrue future service benefits in either Afterwork or PIP. The risks that Barclays runs in relation to the 1964 pension section are typical of final salary pension plans. Principally that investment returns fall short of expectations, that inflation exceeds expectations, and that retirees live longer than expected.

Barclays Pension Savings Plan (BPSP)

- From 1 October 2012 a new UK pension scheme, the BPSP was established to satisfy Auto Enrolment legislation. The BPSP is a defined contribution scheme (Group Personal Pension) providing benefits for all new Barclays UK hires from 1 October 2012, Investment Bank UK employees who were in PIP as at 1 October 2012, and also all UK employees who were not members of a pension scheme as at that date. As a defined contribution plan, BPSP is not subject to the same investment return, inflation or longevity risks that defined benefit plans face. Members' benefits reflect contributions paid and the level of investment returns achieved.

Apart from the UKRF and the BPSP, Barclays operates a number of smaller pension and long-term employee benefits and post-retirement healthcare plans globally, the largest of which are the US and South African defined benefit schemes. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts. Others are operated on an unfunded basis. The benefits provided the approach to funding and the legal basis of the plans reflect their local environments.

Governance

The UKRF operates under trust law and is managed and administered on behalf of the members in accordance with the terms of the Trust Deed and Rules and all relevant legislation. The Corporate Trustee is Barclays Pension Funds Trustees Limited, a private limited company and a wholly owned subsidiary of Barclays Bank PLC. The Trustee is the legal owner of the assets of the UKRF which are held separately from the assets of the Group.

The Trustee Board comprises six Management Directors selected by Barclays, of whom three are independent Directors with no relationship with Barclays or the UKRF, plus three Member Nominated Directors selected from eligible active staff and pensioner members who apply for the role.

The BPSP is a Group Personal Pension arrangement which operates as a collection of personal pension plans. Each personal pension plan is a direct contract between the employee and the BPSP provider (Legal & General Assurance Society Limited), and is regulated by the FCA.

Similar principles of pension governance apply to the Group's other pension schemes, although different legislation covers overseas schemes where, in most cases, the Group has the power to determine the funding rate.

Amounts recognised

The following tables include: amounts recognised in the income statement and an analysis of benefit obligations and scheme assets for all Group schemes. The net position is reconciled to the assets and liabilities recognised on the balance sheet. The tables include funded and unfunded post-retirement benefits.

Income statement charge			
	2013 £m	2012 £m	2011 £m
Current service cost ^a	371	410	414
Net finance cost/(income)	55	(10)	143
Past service cost ^b	4	(33)	23
Settlements	(3)	(12)	—
Total	427	355	580

Notes

a Current service cost for the year ended 31 December 2012 and 31 December 2011 has been restated to bring the DC costs for active members of the South Africa pension plan within defined benefit accounting.

b The past service cost relates to additional benefits provided in Spain during restructuring, offset by savings from restructuring programs in France and Portugal and scheme closure in Ireland.

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Note 37: Pensions and post retirement benefits continued

Balance sheet reconciliation	2013		2012 ^a	
	Total £m	Of which relates to UKRF £m	Total £m	Of which relates to UKRF £m
Benefit obligation at beginning of the year	(26,304)	(23,643)	(23,901)	(21,263)
Current service cost	(371)	(280)	(410)	(309)
Interest costs on scheme liabilities	(1,145)	(1,003)	(1,164)	(991)
Past service cost	(4)	—	33	—
Settlements	44	—	53	—
Remeasurement loss – financial	(989)	(997)	(1,946)	(1,797)
Remeasurement loss – demographic	4	—	5	—
Remeasurement loss – experience	(39)	31	22	29
Employee contributions	(39)	(1)	(44)	—
Benefits paid	905	799	865	690
Exchange and other movements	370	1	183	(2)
Benefit obligation at end of the year	(27,568)	(25,093)	(26,304)	(23,643)
Fair value of scheme assets at beginning of the year	25,075	22,845	23,701	21,541
Interest income on scheme assets	1,090	974	1,174	1,027
Employer contribution	364	238	898	742
Settlements	(41)	—	(41)	—
Remeasurement – return on plan assets greater than discount rate	575	400	304	221
Employee contributions	39	1	44	—
Benefits paid	(905)	(799)	(865)	(690)
Exchange and other movements	(454)	2	(140)	4
Fair value of scheme assets at the end of the year	25,743	23,661	25,075	22,845
Net (deficit)/surplus	(1,825)	(1,432)	(1,229)	(798)
Retirement Benefit Assets	133	—	53	—
Retirement Benefit Liabilities	(1,958)	(1,432)	(1,282)	(798)
Net retirement benefit (liabilities)/assets	(1,825)	(1,432)	(1,229)	(798)

Included within the benefit obligation was £2,314m (2012: £1,585m) relating to overseas pensions and £161m (2012:£164m) relating to other post-retirement benefits. Of the total benefit obligation of £27,568m (2012: £26,304m), £298m (2012: £326m) was wholly unfunded.

As at 31 December 2013, the UKRF's IAS 19R scheme assets were in deficit versus obligations by £1,432m (2012: deficit of £798m). The most significant driver for this change was an increase in long term RPI inflation which was partially offset by higher corporate bond yields and asset out performance.

Critical accounting estimates and judgements

Actuarial valuation of the schemes' obligation is dependent upon a series of assumptions, below is a summary of the main financial and demographic assumptions adopted for UKRF.

UKRF financial assumptions	2013 % p.a.	2012 % p.a.
Discount rate	4.46	4.31
Inflation rate	3.42	2.93
Rate of increase in salaries	2.92	3.43
Rate of increase for pensions in payment	3.32	2.88
Rate of increase for pensions in deferment	3.32	2.88
Afterwork revaluation rate	3.70	3.40

The UKRF discount rate assumption for 2013 is taken based on the single equivalent discount rate implied by the Towers Watson RATE Link model. In 2012, an average rate derived from a Barclays AA corporate bond yield curve and the Towers Watson RATE link model was used. The impact of this change on the UKRF Defined Benefit Obligation was a £0.4bn decrease with no impact on current year profit. The change will affect future years' profits and on an IAS 19 Revised basis will result in a £19m reduced charge to the 2014 income statement. It is not possible to estimate the effects on profits after 2014.

Note

a The scheme assets and benefit obligation for 31 December 2012 have been restated to bring the DC assets and obligations for active members of the South Africa pension plan within defined benefit accounting.

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Note 37: Pensions and post retirement benefits continued

The UKRF's post-retirement mortality assumptions are based on a best estimate assumption derived from an analysis in 2011 of Barclays own post-retirement mortality experience which was carried out at the time of the latest completed triennial funding valuation, and taking account of the recent evidence from published mortality surveys. An allowance has been made for future mortality improvements based on the 2010 core projection model published by the Continuous Mortality Investigation Bureau subject to a long term trend of 1% pa on future improvements. The table below shows how the assumed life expectancy at 60, for members of the UKRF, has varied over the last three years:

Assumed life expectancy			
	2013	2012	2011
Life expectancy at 60 for current pensioners (years)			
– Males	27.9	27.8	27.7
– Females	29.0	28.9	28.8
Life expectancy at 60 for future pensioners currently aged 40 (years)			
– Males	29.3	29.2	29.1
– Females	30.6	30.5	30.4

Sensitivity analysis on actuarial assumptions

The sensitivity analysis has been calculated by valuing the UKRF liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the UKRF assumptions table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The difference between the recalculated liability figure and that stated in the balance sheet reconciliation table above is the figure shown.

	Impact on UKRF defined benefit obligation	
	(Decrease)/ increase %	(Decrease)/ increase £bn
0.5% increase in discount rate	(9.2)	(2.3)
0.5% increase in assumed price inflation	7.8	2.0
1 year increase to life expectancy at 60	3.0	0.8

The weighted average duration of the benefit payments reflected in the defined benefit obligation for the UKRF is 20 years.

Assets

A long term investment strategy has been set for the UKRF, with its asset allocation comprising a mixture of equities, bonds, property and other appropriate assets. This recognises that different asset classes are likely to produce different long term returns and some asset classes may be more volatile than others. The long term investment strategy ensures, amongst other aims, that investments are adequately diversified. Asset managers are permitted some flexibility to vary the asset allocation from the long term investment strategy within control ranges agreed with the Trustee from time to time.

The UKRF also employs derivative instruments, where appropriate, to achieve a desired exposure or return, or to match assets more closely to liabilities. The value of assets shown reflects the actual physical assets held by the scheme, with any derivative holdings reflected on a mark to market basis.

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Note 37: Pensions and post retirement benefits continued

The value of the assets of the schemes and their percentage in relation to total scheme assets were as follows:

Analysis of scheme assets				
	Total		Of which relates to UKRF	
	Value £m	% of total fair value of scheme assets %	Value £m	% of total fair value of scheme assets %
As at 31 December 2013				
Equities – Quoted	3,420	13.3	2,355	10.0
Equities – Non Quoted	1,299	5.0	1,270	5.4
Bonds – Fixed Government ^a	1,342	5.2	888	3.8
Bonds – Index–Linked Government ^a	6,356	24.8	6,365	26.8
Bonds – Corporate and other ^a	3,715	14.5	3,533	14.9
Property – Commercial ^b	1,376	5.3	1,320	5.6
Derivatives ^b	1,425	5.5	1,425	6.0
Cash ^b	4,202	16.3	3,903	16.5
Pooled funds ^c	2,342	9.1	2,342	9.9
Other ^b	266	1.0	260	1.1
Fair value of scheme assets	25,743	100.0	23,661	100.0
As at 31 December 2012				
Equities – Quoted	2,999	12.0	1,917	8.4
Equities – Non Quoted	1,226	4.9	1,204	5.3
Bonds – Fixed Government ^a	1,266	5.0	815	3.6
Bonds – Index–Linked Government ^a	6,405	25.6	6,405	28.0
Bonds – Corporate and other ^a	3,452	13.8	3,280	14.3
Property – Commercial ^b	1,289	5.1	1,228	5.4
Derivatives ^b	1,637	6.5	1,637	7.2
Cash ^b	4,196	16.7	3,843	16.8
Pooled funds ^c	2,288	9.1	2,281	10.0
Other ^b	317	1.3	235	1.0
Fair value of scheme assets	25,075	100.0	22,845	100.0

Included within the fair value of scheme assets were: £5m (2012: £7m) relating to shares in Barclays PLC, £31m (2012: £3m) relating to bonds issued by the Barclays Group, and £7m (2012: £1m) relating to property occupied by Group companies. The UKRF also invests in investment vehicles which may hold shares or debt issued by the Barclays Group.

Approximately a third of the UKRF assets are invested in liability driven investment strategies; primarily UK gilts as well as interest rate and inflation swaps. These are used to better match the assets to its liabilities. The swaps are used to reduce the scheme's inflation and duration risks against its liabilities.

Funding

The triennial funding valuation of the UKRF is currently underway with an effective date of 30 September 2013. Contribution requirements, including any deficit recovery plans, will be agreed between the Bank and Trustee by the end of 2014. The previous triennial funding valuation at 30 September 2010 showed a deficit of £5.0bn. Under the agreed recovery plan, deficit contributions of £1.8bn were paid to the fund in December 2011 and a further £0.5bn paid in April 2012. Further deficit contributions are payable from 2017 to 2021 starting at £0.7bn in 2017 and increasing by approximately 3.5% per annum until 2021. These deficit contributions are in addition to the regular contributions to meet the Group's share of the cost of benefits accruing over each year.

In non-valuation years the Scheme Actuary prepares an annual update of the funding position. The latest annual update was carried out as at 30 September 2012 and showed a deficit of £3.6bn. The contributions paid to the UKRF are agreed between Barclays and the Trustee every three years.

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Contributions paid with respect to the UKRF were as follows:

Contributions paid	
	£m
2013	238
2012	742
2011	2,128

The Group's expected contribution to the UKRF in 2014 is £218m. In addition the expected contributions to UK defined contribution schemes is £46m to the UKRF and £103m to the BPSP. For non-UK schemes the expected contributions in 2014 are £107m.

Notes

a Assets held are predominately quoted.

b Assets held are predominantly non quoted.

c Pooled funds relate to a variety of investments which are predominantly non-quoted.

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Performance

i This section presents information on the Group's investments in subsidiaries, joint ventures and associates and its interests in structured entities. Detail is also given on securitisation transactions the Group has entered into and arrangements that are held off-balance sheet.

Note 38: Principal Subsidiaries

Barclays applies IFRS 10 *Consolidated Financial Statements*. The consolidated financial statements combine the financial statements of Barclays PLC and all of its subsidiaries. Subsidiaries are entities over which the Group has control. Under IFRS 10, this is when the Group is exposed or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there have been changes to its power, its rights to variable returns or its ability to use its power to affect the amount of its returns.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has been obtained and they do not result in loss of control.

Barclays adopted IFRS 10 from 1 January 2013. The financial effects of the adoption are set out in Note 46 to these financial statements.

The significant judgements used in applying this policy are set out below.

Accounting for investment in subsidiaries

In the individual financial statements of Barclays PLC, investments in subsidiaries are stated at cost less impairment. Cost includes any directly attributable costs of the investment.

Principal subsidiaries for the Group are set out below. This includes those subsidiaries that are most significant in the context of the Group's business, results or financial position.

Company Name	Principal place of business or incorporation	Nature of business	Percentage of Voting rights held %	Non-controlling interests – proportion of ownership interests %	Non-controlling interests – proportion of voting interests %
Barclays Bank PLC	England	Banking, holding company	100	12	–
Barclays Capital Securities Limited	England	Securities dealing	100	–	–
Barclays Private Clients International Limited	Isle of Man	Banking	100*	–	–
Barclays Securities Japan Limited	Japan	Securities dealing	100	–	–
Absa Bank Limited	South Africa	Banking	62	38	38
Barclays Bank of Kenya Limited	Kenya	Banking	43	57	57
Barclays Bank S.A.U.	Spain	Banking	100*	–	–
Barclays Capital Inc.	United States	Securities dealing	100	–	–
Barclays Bank Delaware	United States	Credit card issuer	100	–	–

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in subsidiaries held directly by Barclays Bank PLC are marked *. Information on the Groups subsidiaries, as required by the Companies Act, will be included in the Annual Return to be filed at the UK Companies House.

Ownership interests are in some cases different to voting interests due to the existence of non-voting equity interests, such as preference shares. See Note 34, non-controlling interests for more information. The 43% effective voting interest in Barclays Bank of Kenya Limited is derived from the Group's 62% interest in Barclays Africa Group Limited which holds a 69% interest in Barclays Bank of Kenya Limited.

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[Note 38: Principal Subsidiaries continued](#)

Significant judgements and assumptions used to determine the scope of the consolidation

Determining whether the Group has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances this determination will involve significant judgment, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgment may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the Group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgment involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, the Group may conclude that the managers of the structured entity are acting as its agent and therefore will consolidate the structured entity.

An interest in equity voting rights exceeding 50% would typically indicate that the Group has control of an entity. However certain entities are excluded from consolidation because the Group does not have exposure to their variable returns. These entities are managed by external counterparties and consequently are not controlled by the Group. Where appropriate, interests relating to these entities are included in Note 39 Structured Entities.

Country of registration or incorporation	Company Name	Percentage of voting rights held (%)	Equity shareholder's funds (£m)	Retained profit for the year (£m)
UK	Fitzroy Finance Limited	100	—	—
Cayman Islands	Palomino Limited	100	1	—

Significant restrictions

As is typical for a Group of its size and international scope, there are restrictions on the ability of Barclays PLC to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries and due to the protective rights of non-controlling interests. These are considered below.

[Regulatory requirements](#)

Subsidiary companies with assets and liabilities before intercompany eliminations of £1,797bn (2012: £1,963bn) and £1,727bn (2012: £1,900bn) respectively are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company, Barclays PLC.

In order to meet capital requirements, subsidiaries may hold certain equity accounted and debt accounted issued financial instruments and non-equity instruments such as Tier 1 and Tier 2 capital instruments and other forms of subordinated liabilities. See the non-controlling interests Note 34 and the subordinated liabilities Note 31 for particulars of these instruments. These instruments may be subject to cancellation clauses or preference share restrictions that would limit the ability of the entity to repatriate the capital on a timely basis.

[Liquidity requirements](#)

Regulated subsidiaries of the Group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are Barclays Bank PLC, Absa Bank Limited and Barclays Capital Inc. which must maintain daily compliance with the regulatory minimum.

See pages 208 to 224 for further details of liquidity requirements, including those of our significant subsidiaries.

[Statutory requirements](#)

The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally to maintain solvency. These requirements restrict the ability of subsidiaries to make remittances of dividends to Barclays PLC, the ultimate parent, except in the event of a legal capital reduction or liquidation. In most cases the regulatory restrictions referred to above exceed the statutory restrictions.

As at 31 December 2013, the non-distributable reserves of Barclays Bank PLC, including share capital and other equity instruments were £23,571m (2012: £18,608m).

[Contractual requirements](#)

[Asset encumbrance](#)

The Group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the Group. The assets typically affected are disclosed in Note 42 Assets Pledged.

[Assets held by consolidated structured entities](#)

£690m of assets included in the Group's balance sheet relate to consolidated investment funds and are held to pay return and principal to the holders of units in the funds. The assets held in these funds cannot be transferred to other members of the Group.

[Other restrictions](#)

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The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £4,722m as at 31 December 2013 (2012: £5,169m).

Barclays Africa Group Limited assets are subject to exchange control regulation determined by the South African Reserve Bank (SARB). Special dividends and loans in lieu of dividends cannot be transferred without SARB approval.

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Note 39: Structured Entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated Structured Entities

The Group has contractual arrangements which may require it to provide financial support to the following types of consolidated structured entities:

Securitisation vehicles

The Group uses securitisation as a source of financing and a means of risk transfer. Refer to Note 41 for further detail.

The Group provides liquidity facilities to entities and provides interest rate and foreign currency swaps to enable the entities to make certain payments when due. At 31 December 2013, there were outstanding loan commitments to these entities totalling £195m.

Commercial paper (CP) and medium term note conduits

The Group provided £8.1bn in undrawn contractual backstop liquidity facilities to its own sponsored CP conduits.

Fund management entities

Barclays has contractually guaranteed the performance of certain cash investments in a number of managed investment funds which have resulted in their consolidation. As at 31 December 2013, the notional value of the guarantee was £991m.

Covered bonds

During the reporting period, the Group provided non-contractual capital contributions totalling £1.3bn to Barclays Covered Bonds Limited Liability Partnership as a result of regulatory requirements to pre fund upcoming contractual covered bond redemptions. It will continue to provide such support in 2014.

Employee benefit trusts

The Group provides capital contributions to employee share trusts to enable them to meet their obligations to employees under share-based payment plans.

Unconsolidated Structured Entities in which the Group has an interest

The business activities within the Group where structured entities are used principally include multi-seller conduit programmes, asset securitisations, and asset management. The later sections provide quantitative information on the Group's involvements. For a description of these activities see the Glossary.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include holdings of debt or equity securities, derivatives that transfer financial risks from the entity to the Group, lending, loan commitments, financial guarantees and investment management agreements.

Interest rate swaps, foreign exchange derivatives that are not complex and which expose the Group to insignificant credit risk by being senior in the payment waterfall of a securitisation and derivatives that are determined to introduce risk or variability to a structured entity are not considered to be an interest in an entity and have been excluded from the disclosures below.

The nature and extent of the Group's interests in structured entities is summarised below:

Summary of interests in unconsolidated structured entities					
	Secured financing £m	Short term traded interests £m	Traded derivatives £m	Other interests £m	Total £m
Assets					
Trading portfolio assets	–	11,272	–	5,111	16,383
Financial assets designated at fair value	–	–	–	1,035	1,035
Derivative financial instruments	–	–	3,758	1,464	5,222
Available for sale investments	–	–	–	2,073	2,073
Loans and advances to banks	–	–	–	4,143	4,143
Loans and advances to customers	–	–	–	24,971	24,971
Reverse repurchase agreements and other similar secured lending	51,112	–	–	–	51,112
Other assets	–	–	–	35	35
Total assets	51,112	11,272	3,758	38,832	104,974
Liabilities					
Derivative financial instruments	–	–	4,895	1,457	6,352

Secured financing arrangements, short term traded interests and traded derivatives are typically managed under market risk described in page 190 which includes an indication on the change of risk measures compared to last year. For this reason, the total assets of these entities are not considered meaningful for the purposes of understanding the related risks and so have not been presented. Other interest materially includes a portfolio under exit quadrant which is being managed down and conduits and corporate lending where the interest is driven by normal customer demand.

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Note 39: Structured Entities continued

Secured financing

The Group routinely enters into reverse repurchase contracts, stock borrowing and similar arrangements on normal commercial terms where the counterparty to the arrangement is a structured entity. Due to the nature of these arrangements, especially the transfer of collateral and on-going margining, the Group is minimally exposed to the performance of the structured entity counterparty. A description of these transactions is included in Note 23.

Short term traded interests

The Group buys and sells interests in structured entities as part of its trading activities, for example, retail mortgage backed securities, collateralised debt obligations and similar interests. Such interests are typically held individually or as part of a larger portfolio for no more than 90 days. In such cases, the Group typically has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Description of these transactions is included in Note 13.

As at 31 December 2013, the fair value of the Group's interests in structured entities in the trading portfolio, included in trading portfolio assets in the Group balance sheet, were as follows:

Type of security and nature of entity	Asset securitisations £m	Other £m	Total £m
Debt securities	10,177	345	10,522
Equity securities	5	87	92
Traded loans	—	538	538
Other assets	—	120	120
Total	10,182	1,090	11,272

Traded derivatives

The Group enters into a variety of derivative contracts with structured entities which reference market risk variables such as interest rates, foreign exchange rates and credit indices amongst other things. Description of the type of derivatives and the risk management practices are detailed in Note 15. The risk of loss may be mitigated through on-going margining requirements as well as a right to cash flows from entity which are senior in the payment waterfall. Such margining requirements are consistent with market practice for many derivative arrangements and in line with the Group's normal credit policies.

The main derivative types which are considered interests in structured entities are as follows. Notional amounts of the derivative arrangements have been provided as a better indication of the risks associated with these instruments rather than the size of the structured entities to which the Group has exposure:

Type of derivative and nature of entity	Asset management			Asset securitisations			Others			Total		
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Credit default swaps												
Index based	54,519	1,075	(1,353)	1,286	160	(328)	—	—	—	55,805	1,235	(1,681)
Entity specific	18,448	408	(203)	11	18	(28)	—	—	—	18,459	426	(231)
Total	72,967	1,483	(1,556)	1,297	178	(356)	—	—	—	74,264	1,661	(1,912)
Balance guaranteed swaps												
Total return swaps	—	—	—	38,349	231	(493)	—	—	—	38,349	231	(493)
Commodity	8,044	241	(470)	—	—	—	2	—	—	8,046	241	(470)
Equity swaps	10,341	518	(892)	—	—	—	3,698	47	(335)	14,039	565	(1,227)
Other derivative products	28,523	962	(792)	—	—	—	—	98	—	28,523	1,060	(792)
Total	119,875	3,204	(3,710)	40,252	409	(850)	3,700	145	(335)	163,827	3,758	(4,895)

Derivative transactions require the counterparty to provide cash or other collateral under margining agreements to mitigate counterparty credit risk. Included above are, £752m derivative assets and £(1,271)m derivative liability with a notional value of £41,716m which are 'cleared derivative' type arrangements. These are transactions where the Group enters into a contract with an exchange on behalf of a structured entity client and holds an opposite position with it. The Group is exposed to settlement risk only on these derivatives which is mitigated through daily margining.

Except for credit default swaps where the maximum exposure to loss is the swap notional amount, it is not possible to estimate the maximum exposure to loss in respect of derivative positions as the fair value of derivatives is subject to changes in market rates of interest, exchange rates and credit indices which by their nature are uncertain. In addition, the Group's losses would be subject to mitigating action under its traded market risk and credit risk policies that require the counterparty provide collateral in cash or other assets on a daily basis in most cases.

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Note 39: Structured Entities continued

The contracts that most expose the Group to the risk of loss arising from the performance of the structured entity are as follows:

Credit default swaps – entity specific

In addition to index based credit default swaps, the Group provides tailored credit risk protection to structured entities where its loss exposure is based on the actual performance of the structured entity counterparty and the assets that it holds. The underlying for these exposures are mainly related to corporate and commercial loans, corporate bonds and retail mortgages.

Balance guaranteed swaps

These are single or cross-currency swaps where the notional amount of the arrangement is not defined at trade inception and instead tracks the balance of a reference pool of collateral or securities. The swap exchanges the cash flows of the referenced collateral into those of the issued debt securities which pay a different coupon and in a different currency. Swaps may be super-senior in the capital structure or pari-passu with the issued notes. The Group holds debt securities issued by the entities as a hedge against the credit risk of the balance guaranteed swaps. At 31 December 2013 £1,457m of such bonds were held within the trading portfolio asset.

Other interests in unconsolidated structured entities

The Group's interests in structured entities not held for the purposes of short term trading activities are set out below, summarised by the purpose of the entities and limited to significant categories, based on maximum exposure to loss.

Nature of interest	Structured credit portfolio £m	Multi-seller conduit programmes £m	Lending £m	Mortgage backed securities £m	Investment funds and trusts £m	Others £m	Total £m
Trading portfolio assets							
– Debt securities	4,944	–	50	–	–	106	5,100
– Equity securities	–	–	–	–	–	11	11
Financial assets designated at fair value							
– Loans and advances to customers	–	–	935	–	–	34	969
– Debt securities	–	–	–	–	–	32	32
– Equity securities	–	–	–	–	–	34	34
Derivative financial instruments	–	–	7	–	–	1,457	1,464
Available for sale investments							
– Debt securities	1	564	2	1,476	–	30	2,073
Loans and advances to customers	3,115	7,927	13,183	–	–	746	24,971
Loans and advances to banks	–	–	4,066	–	–	77	4,143
Other assets	–	1	1	–	25	8	35
Total on balance sheet exposures	8,060	8,492	18,244	1,476	25	2,535	38,832
Total notional amounts of off balance sheet amounts	1,411	8,400	2,186	–	–	54	12,051
Maximum exposure to loss	9,471	16,892	20,430	1,476	25	2,589	50,883
Total assets of the entity	80,565	138,199	138,980	246,062	44,679	11,098	659,583

Maximum exposure to loss

Unless specified otherwise below, the Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments and financial guarantees. Exposure to loss is mitigated through collateral, financial guarantees, the availability of netting and credit protection held.

Structured Credit Portfolio

The portfolio forms a subset of the exit quadrant disclosed on page 181 which are being managed down. It comprises interests in debt securities issued by securitisation vehicles, mainly Collateralised Loan Obligations (CLOs), Collateralised Debt Obligations (CDOs), Retail and Commercial Mortgage Backed Securitisation structures (RMBSs and CMBSs), and drawn and undrawn loan facilities to these entities. In some cases, the securities are 'wrapped' with credit protection from a monoline insurer, which transfers the credit risk to the monoline. The entities are wholly debt financed through the issuance of tranches of debt securities or through direct funding, such as the loan facilities provided by the Group. As the underlying assets of the entities amortise and pay down, the debt securities issued by the entities are repaid in order of seniority. Where the entities experience significant credit deterioration, debt securities may be written off or cancelled in reverse order of seniority.

The creditworthiness of the Group's funded exposures within structured credit portfolio is presented below along with the Group's unfunded commitments. Funded exposures are classified as either debt securities or loans and advances. Refer to Note 20 for an additional description of the loans and advances.

	Non-monoline CLOs £m	Monoline wrapped CLOs £m	RMBS £m	Monoline wrapped CDOs £m	CMBS £m	Non-monoline CDOs £m	Others £m	Total £m
Investment grade	3,175	2,947	137	16	38	122	141	6,576

Non investment grade	—	—	46	502	175	191	—	914
Non rated	353	123	17	—	24	47	6	570
Total on balance sheet	3,528	3,070	200	518	237	360	147	8,060
Undrawn liquidity commitments	117	2	1,074	—	174	—	44	1,411
Maximum exposure to loss	3,645	3,072	1,274	518	411	360	191	9,471

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Note 39: Structured Entities continued

On balance sheet amounts								
	Non-monoline CLOs £m	Monoline wrapped CLOs £m	RMBS £m	Monoline wrapped CDOs £m	CMBS £m	Non-monoline CDOs £m	Others £m	Total £m
Debt securities at fair value	740	3,070	21	518	237	360	—	4,946
Loans and advances	2,788	—	179	—	—	—	147	3,114
Total on balance sheet exposure	3,528	3,070	200	518	237	360	147	8,060

The majority of these interests are held at fair value through profit or loss as part of the Trading Portfolio, however direct lending and certain CLO positions are held at amortised cost, as disclosed in the above table.

The Group's exposure to loss depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before the Group. This is summarised in the table below.

	Non-monoline CLOs £m	Monoline wrapped CLOs £m	RMBS £m	Monoline wrapped CDOs £m	CMBS £m	Non-monoline CDOs £m	Others £m	Total £m
Senior	3,520	3,072	1,092	518	367	322	191	9,082
Mezzanine	125	—	181	—	44	36	—	386
Subordinated	—	—	1	—	—	2	—	3
Total	3,645	3,072	1,274	518	411	360	191	9,471

Due to decreases in the fair value of the underlying collateral, the interests that are subordinate to the Group's certain senior and mezzanine interests may currently have minimal or no value.

The Group's income from these entities comprises trading income (largely gains and losses on changes in the fair value and interest earned on bonds) on items classified as held for trading and interest income on interests classified as loans and receivables.

During the period, the Group recorded an overall fair value gain of £639m on debt securities. Impairment losses recorded on loans and advances were immaterial during the period.

The fair value of the Group's interests in monoline wrapped CLOs and CDOs is influenced by the protection directly provided to the structured entities by monoline insurers in addition to the value of the collateral held by the entities. The protection provided to the entities by the monoline insurers is in the form of a CDS, however the ability of the monolines to make payments is uncertain, which is reflected in the valuation of the Group's interests in the monoline wrapped CLOs and CDOs.

[Multi-seller conduit programmes](#)

The conduits engage in providing financing to various clients and hold whole or partial interests in pools of receivables or similar obligations. These instruments are protected from loss through over-collateralization, seller guarantees, or other credit enhancements provided to the conduits. The Group's off-balance sheet exposure included in the table above represents liquidity facilities that are provided to the conduits for the benefit of the holders of the commercial paper issued by the conduits and will only be drawn where the conduits are unable to access the commercial paper market. If these facilities are drawn, the Group is protected from loss through over-collateralization, seller guarantees, or other credit enhancements provided to the conduits. The Group earns income from fees received on the liquidity facility and the letter of credit provided to the conduits. There were no impairment losses on this lending in the year.

[Lending](#)

The portfolio includes lending provided by the Group to unconsolidated structured entities in the normal course of its lending business to earn income in the form of interest and lending fees. All loans are subject to the Group's credit sanctioning process. Collateral arrangements are specific to the circumstances of each loan. During the period the Group incurred an impairment of £20m against such facilities. The main types of lending are as follows.

[Property loans](#)

The Group has provided £4bn of funding loans to bankruptcy remote structured entities to either invest or develop properties. The loans are typically secured against the properties. Depending upon the circumstances the Group may require the sponsors of the entities to provide additional funding which is subordinate to the Group's. Additional guarantees and collateral may be sought from the sponsor on a case-by-case basis.

[Facilities to financial institutions](#)

The Group has provided loans to structured entities owned by third party financial institutions to facilitate their funding requirements. There is credit mitigation in place which significantly reduces the credit exposure faced by the Group against these entities.

[Structured lending to individuals](#)

The Group has provided £2bn of loans to structured entities which have been created by an individual to hold one or more

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assets. The Group is the sole lender to these entities and has full recourse to the assets of the structured entity, and is usually further collateralised by guarantees from the sponsor or equity holders of the structured entity.

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Note 39: Structured Entities continued

Project finance transactions

The Group has provided £2bn to entities whose operations are limited to financing or funding the acquisition of specific assets such as schools, hospitals, roads and renewable energy projects under the Private Finance Initiative (PFI). Equity contributions are typically required from the sponsor or parent at inception of the arrangement which are required to absorb losses before the Group. The Group may also require the sponsor to provide liquid collateral where there is no recourse or reliance upon the parent or sponsor beyond its initial equity contribution. The Group typically obtains fixed and floating charges over assets, charges over shares in the structured entity, assignment rights over key contracts, step-in rights, and performance guarantees.

Capital equipment loans

The Group has provided £1bn of funding loans to bankruptcy remote structured entities to enable them to purchase capital equipment for parent companies and are supported by government export guarantees. The loans are also fully collateralised by the underlying assets and repayments of principal and interest are met through lease contracts with the operating company parent of the entity for its use of the purchased assets. Due to these guarantees and the availability of collateral, the loans are considered low risk. During the period, Barclays incurred no credit losses on such facilities.

Mortgage backed securities

This represents a portfolio of floating rate notes mainly mortgage backed security positions used as an economic hedge of interest rate risk under the Group's structural hedging programme. All notes are investment grade.

Investment funds and trusts

In the course of its fund management activities, the Group establishes pooled investment funds that comprise portfolio of investments of various kinds, tailored to meet certain investors' requirements. The Group's interest in funds is generally restricted to a fund management fee, the value of which is generally based on the performance of the fund.

The Group acts as trustee to a number of trusts established by or on behalf of its clients. The purpose of the trusts, which meet the definition of structured entities, is to hold assets on behalf of beneficiaries. The Group's interest in trusts is generally restricted to unpaid fees which, depending on the trust, may be fixed or based on the value of the trust assets. During the year ended 31 December 2013, fees earned were £206m and unpaid fees were £21m. Barclays has no other risk exposure to the trusts.

Other

This includes £1,457m of derivative transactions with structured entities where the market risk is materially hedged with corresponding derivative contracts.

Financial support provided or to be provided to unconsolidated structured entities

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to unconsolidated structured entities in the future.

Sponsored unconsolidated structured entities

In addition to the unconsolidated structured entities in which the Group has an interest, it also sponsors structured entities in which it has no interest. For the purposes of these disclosures, the Group sponsors an entity when:

- It is the majority user of the entity;
- Its name appears in the name of the entity or on the products issued by the entity;
- It provides implicit or explicit guarantees of the entity's performances; or
- It led the formation of the entity.

Income from sponsored unconsolidated structured entities comprised of a £4m interest earned from bonds recognised within trading income.

Assets transferred to unconsolidated sponsored structured entities

Assets transferred by all parties, not just those transferred by the Group, to sponsored entities during the period were as follows:

Nature of activities		2013 £m
Asset securitisations		1,515
Other		5
Total		1,520

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Note 40: Investments in associates and joint ventures

Accounting for associates and joint ventures

Barclays applies IAS 28 *Investments in Associates* and IFRS 11 *Joint Arrangements*. Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. Generally the Group holds more than 20%, but less than 50%, of their voting shares. Joint ventures are joint arrangements which have joint control and have rights to the net assets of the entity.

The Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition profit (or loss). The Group ceases to recognise its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses. In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

There are no individually significant investments in joint ventures or associates held by Barclays. There are certain entities that are considered strategic to the banking operations of the Group supporting payment services.

	2013			2012		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
Equity accounted	275	378	653	324	309	633
Held at fair value through profit or loss	610	400	1,010	634	315	949
Total	885	778	1,663	958	624	1,582

Summarised financial information for the Group's equity accounted associates and joint ventures is set out below. The amounts shown are the net income of the investees, not just the Group's share for the year ended 31 December 2013 with the exception of certain undertakings for which the amounts are based on accounts made up to dates not earlier than three months before the balance sheet date.

	Associates		Joint ventures	
	2013 £m	2012 £m	2013 £m	2012 £m
Profit or loss from continuing operations	(51)	137	144	168
Other comprehensive income/(loss)	3	14	(20)	(2)
Total comprehensive (loss)/income	(48)	151	124	166

Unrecognised shares of the losses of individually immaterial associates and joint ventures were nil (2012: £6m).

The Group's associates and joint ventures are subject to statutory requirements such that they cannot make remittances of dividends or make loan repayments to Barclays PLC without agreement from the external parties.

The Group's share of commitments and contingencies of its associates and joint ventures comprised unutilised credit facilities provided to customers of £2,156m (2012: £2,711m). In addition, the Group has made commitments to finance or otherwise provide resources to its joint ventures and associates of £74m (2012: £87m).

Note 41: Securitisations

Accounting for securitisations

The Group uses securitisations as a source of finance and a means of risk transfer. Such transactions generally result in the transfer of contractual cash flows from portfolios of financial assets to holders of issued debt securities.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Group transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

In the course of its normal banking activities, the Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficial (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit

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risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

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Note 41: Securitisations continued

A summary of the main transactions, and the assets and liabilities and the financial risks arising from these transactions, is set out below:

Transfers of financial assets that do not result in derecognition**Securitisations**

The Group was party to securitisation transactions involving its residential mortgage loans, business loans and credit card balances. In addition, the Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions.

In these transactions, the assets, interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, which then issues interest bearing debt securities to third-party investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction. Partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets can also occur or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer.

The following table shows the carrying amount of securitised assets that have not resulted in full derecognition, together with the associated liabilities, for each category of asset on the balance sheet:

	2013			2012		
	Assets Carrying amount £m	Fair Value £m	Liabilities Carrying amount £m	Fair Value £m	Assets Carrying amount £m	Liabilities Carrying amount £m
Loans and advances to customers						
Residential mortgage loans	3,930	3,658	(3,545)	(3,335)	5,545	(5,066)
Credit cards, unsecured and other retail lending	6,563	6,639	(5,017)	(5,038)	6,944	(5,519)
Corporate loans	331	285	(294)	(286)	944	(809)
Total	10,824	10,582	(8,856)	(8,659)	13,433	(11,394)
Assets designated at fair value through profit or loss						
Retained interest in residential mortgage loans	68	n/a	–	n/a	12	–

Balances included within loans and advances to customers represent securitisations where substantially all the risks and rewards of the asset have been retained by the Group.

The relationship between the transferred assets and the associated liabilities is that holders of notes may only look to cash flows from the securitised assets for payments of principal and interest due to them under the terms of their notes, although the contractual terms of their notes may be different to the maturity and interest of the transferred assets.

Retained interests in residential mortgage loans are securities which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets. The carrying amount of the loans before transfer was £124m (2012: £16m). The retained interest is initially recorded as an allocation of the original carrying amount based on the relative fair values of the portion derecognised and the portion retained.

For transfers of assets in relation to repurchase agreements, see Notes 23 and 42.

Continuing involvement in financial assets that have been derecognised

In some cases, the Group may have transferred a financial asset in its entirety but may have continuing involvement in it. This arises in asset securitisations where loans and asset backed securities were derecognised as a result of the Group's involvement with CLOs, CDOs, RMBS and CMBS. Continuing involvement largely arises from providing financing into these structures in the form of retained notes, which do not bear first losses.

The table below shows the potential financial implications of such continuing involvement:

Type of transfer	Continuing involvement as at 31 December 2013			Gain/(loss) from continuing involvement	
	Carrying amount £m	Fair value £m	Maximum exposure to loss £m	For the year ended 31 December 2013 £m	Cumulative to 31 December 2013 £m
CLO and other assets	1,911	1,883	1,911	46	(712)
ABS CDO Super Senior	—	—	—	—	—
US sub-prime and Alt-A	398	377	398	3	(1,221)
Commercial mortgage backed securities	241	241	241	3	(33)
Total	2,550	2,501	2,550	52	(1,966)

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Note 41: Securitisations continued

Type of transfer	Continuing involvement as at 31 December 2012			Gain/(loss) from continuing involvement	
	Carrying amount £m	Fair value £m	Maximum exposure to loss £m	For the year ended 31 December 2012 £m	Cumulative to 31 December 2012 £m
CLO and other assets	2,546	2,495	2,556	126	(839)
ABS CDO Super Senior	922	922	922	209	(2,204)
US sub-prime and Alt-A	781	781	781	8	(1,336)
Commercial mortgage backed securities	239	239	239	1	(41)
Total	4,488	4,437	4,498	344	(4,420)

Assets which represent the Group's continuing involvement in derecognised assets are recorded in the following line items:

Type of transfer	Loans and advances £m	Trading portfolio assets £m	Derivatives £m	Available for sale investments £m	Total £m
As at 31 December 2013					
CLO and other assets	1,130	778	2	1	1,911
US sub-prime and Alt-A	321	77	—	—	398
Commercial mortgage backed securities	—	241	—	—	241
Total	1,451	1,096	2	1	2,550
As at 31 December 2012					
CLO and other assets	1,624	899	7	16	2,546
ABS CDO Super Senior	—	922	—	—	922
US sub-prime and Alt-A	703	78	—	—	781
Commercial mortgage backed securities	—	239	—	—	239
Total	2,327	2,138	7	16	4,488

Note 42: Assets pledged

Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to derivatives. The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	2013 £m	2012 £m
Trading portfolio assets	65,271	85,334
Loans and advances	62,607	72,918
Other	8,755	20,816
Assets pledged	136,633	179,068

Barclays has an additional £11bn (2012: £15bn) of loans and advances within its asset backed funding programmes that can readily be used to raise additional secured funding and available to support future issuance.

Collateral held as security for assets

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, the Group is allowed to resell or re-pledge the collateral held. The fair value at the balance sheet date of collateral accepted and re-pledged to others was as follows:

	2013 £m	2012 £m
Fair value of securities accepted as collateral	390,530	361,067
Of which fair value of securities re-pledged/transferred to others	321,115	309,466

The full disclosure as per IFRS7 has been included in collateral and other credit enhancements (page 142).

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Other disclosure matters

i The notes included in this section focuses on related party transactions, auditors' remuneration and directors' remuneration. Related parties include any subsidiaries, associates, joint ventures, entities under common directorships and Key Management Personnel.

Note 43: Related party transactions and Directors' remuneration

a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes.

Subsidiaries

Transactions between Barclays PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group financial statements. Transactions between Barclays PLC and its subsidiary, Barclays Bank PLC are fully disclosed in its balance sheet and income statement. A list of the Group's principal subsidiaries is shown in Note 38.

Associates, joint ventures and other entities

The Group provides banking services to its associates, joint ventures, the Group pension funds (principally the UK Retirement Fund) and to entities under common directorships, providing loans, overdrafts, interest and non-interest bearing deposits and current accounts and other such banking services. Group companies also provide investment management and custodian services to the Group pension schemes. All of these transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group's associates and joint ventures is set out in Note 40.

Entities under common directorships

The Group enters into normal commercial relationships with entities for which members of the Group's Board also serve as Directors. The amounts included in the Group's financial statements relating to such entities that are not publicly listed are shown in the table below under Entities under common directorships.

Amounts included in the Group's financial statements, in aggregate, by category of related party entity are as follows:

	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds, unit trusts and investment funds £m
For the year ended and as at 31 December 2013				
Income	(10)	24	1	3
Impairment	(3)	(4)	—	—
Total assets	116	1,521	33	5
Total liabilities	278	185	73	207
For the year ended and as at 31 December 2012				
Income	(3)	38	1	20
Impairment	—	(5)	—	—
Total assets	137	1,657	198	—
Total liabilities	18	585	94	152
For the year ended and as at 31 December 2011				
Income	(40)	20	1	17
Impairment	(2)	(6)	—	—
Total assets	176	1,529	364	—
Total liabilities	26	454	70	182

No guarantees, pledges or commitments have been given or received in respect of these transactions in 2013 or 2012. Derivatives transacted on behalf of the Pensions Funds Unit Trusts and Investment Funds were £612.7m (2012: £661.1m).

Key Management Personnel

The Group's Key Management Personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays PLC (directly or indirectly) and comprise the Directors of Barclays PLC and the Officers of the Group (listed on page 427), certain direct reports of the Chief Executive and the heads of major business units and functions.

There were no material related party transactions with entities under common directorship where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

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Note 43: Related party transactions and Directors' remuneration continued

The Group provides banking services to Directors and other Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding at 31 December were as follows:

Loans outstanding		
	2013 £m	2012 £m
As at 1 January	5.9	5.9
Loans issued during the year	14.0	0.6
Loan repayments during the year	(6.5)	(0.6)
As at 31 December	13.4	5.9

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person). Fully collateralised open derivative positions relating to Directors or other Key Management Personnel amounted to £0.1m (2012: £nil).

Deposits outstanding		
	2013 £m	2012 £m
As at 1 January	37.3	39.1
Deposits received during the year	156.4	141.8
Deposits repaid during the year	(93.5)	(143.6)
As at 31 December	100.2	37.3

Total commitments outstanding

Total commitments outstanding refers to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to Key Management Personnel. Total commitments outstanding were £2.6m (2012: £2.3m).

All loans to Directors and other Key Management Personnel (and persons connected to them), (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features.

Remuneration of Directors and other Key Management Personnel

Total remuneration awarded to Directors and other Key Management Personnel below represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest remuneration decisions and is consistent with the approach adopted for disclosures set out on pages 89 to 125. Costs recognised in the income statement reflect the accounting charge for the year included within operating expenses. The difference between the values awarded and the recognised income statement charge principally relates to the recognition of deferred costs for prior year awards. Figures are provided for the period that individuals met the definition of Directors and other Key Management Personnel.

	2013 £m	2012 £m
Salaries and other short-term benefits	22.3	20.2
Pension costs	0.6	0.4
Other long-term benefits	11.5	17.9
Share-based payments	29.7	24.6
Employer social security charges on emoluments	6.5	7.9
Costs recognised for accounting purposes	70.6	71.0
Employer social security charges on emoluments	(6.5)	(7.9)
Other long-term benefits – difference between awards granted and costs recognised	(3.9)	(13.4)
Share-based payments – difference between awards granted and costs recognised	(18.3)	(12.0)
Total remuneration awarded	41.9	37.7

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Disclosure required by the Companies Act 2006

The following information regarding directors is presented in accordance with the Companies Act 2006:

	2013 £m	2012 £m
Aggregate emoluments	5.3	5.5
Gains on exercise of share options	1.7	–
Amounts paid under LTIPs	0.7	2.8
	7.7	8.3

There were no pension contributions paid to defined contribution schemes on behalf of Directors (2012: £nil). There were no notional pension contributions to defined contribution schemes.

As at 31 December 2013, there were no Directors accruing benefits under a defined benefit scheme (2012: nil).

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Note 43: Related party transactions and Directors' remuneration continued**Directors' and Officers' shareholdings and options**

The beneficial ownership of ordinary share capital of Barclays PLC by all Directors and Officers of Barclays PLC (involving 28 persons) amounted 6,932,951 (2012: 19,620,252) ordinary shares of 25p each (0.04% of the ordinary share capital outstanding).

At 31 December 2013 executive Directors and officers of Barclays PLC (involving 16 persons) held options to purchase a total of 345,943 Barclays PLC ordinary shares (2012: 1,128,437) of 25p each at prices ranging from 133.01p to 228.16p under Sharesave and 431.38p under the Incentive Share Option Plan, respectively.

Advances and credit to Directors and guarantees on behalf of Directors

In accordance with Section 413 of the Companies Act 2006, the total amount of advances and credits made available in 2013 to persons who served as directors during the year was £0.2m (2012: £0.3m). No guarantees were entered into on behalf of Directors during 2013 (2012: £nil).

Note 44: Auditors' remuneration

Auditors' remuneration is included within consultancy, legal and professional fees in administration and general expenses and comprises:

	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
2013					
Audit of the Group's annual accounts	10	–	–	–	10
Other services:					
Fees payable for the Company's associates ^a	25	–	–	–	25
Other services supplied ^b	–	3	–	–	3
Other services relating to taxation					
– compliance services	–	–	2	–	2
– advisory services ^c	–	–	–	–	–
Other	–	3	–	2	5
Total auditors' remuneration	35	6	2	2	45
2012					
Audit of the Group's annual accounts	10	–	–	–	10
Other services:					
Fees payable for the Company's associates ^a	25	–	–	–	25
Other services supplied ^b	–	4	–	–	4
Other services relating to taxation					
– compliance services	–	–	2	–	2
– advisory services ^c	–	–	–	–	–
Other	–	2	–	1	3
Total auditors' remuneration	35	6	2	1	44
2011					
Audit of the Group's annual accounts	13	–	–	–	13
Other services:					
Fees payable for the Company's associates ^a	26	–	–	–	26
Other services supplied ^b	–	3	–	–	3
Other services relating to taxation					
– compliance services	–	–	5	–	5
– advisory services ^c	–	–	1	–	1
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates ^d	–	–	–	2	2
Other	–	3	–	1	4
Total auditors' remuneration	39	6	6	3	54

The figures shown in the above table relate to fees paid to PricewaterhouseCoopers LLP and its associates for continuing operations of business. Fees paid to other auditors not associated with PricewaterhouseCoopers LLP in respect of the audit of the Company's subsidiaries were £5m (2012: £7m, 2011: £6m).

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- a Comprises the fees for the statutory audit of the subsidiaries and associated pension schemes both inside and outside Great Britain and fees for the work performed by associates of PricewaterhouseCoopers LLP in respect of the consolidated financial statements of the Company. Fees relating to the audit of the associated pension schemes were £0.2 (2012: £0.2m, 2011: £0.2m).
- b Comprises services in relation to statutory and regulatory filings. These include audit services for the review of the interim financial information under the Listing Rules of the UK listing authority.
- c Includes consultation on tax matters, tax advice relating to transactions and other tax planning and advice.
- d Comprises due diligence related to transactions and other work in connection with such transactions.

Note 45: Financial risks, liquidity and capital management

To improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication, disclosures required under IFRS relating to financial risks and capital resources have been included within the Risk management and governance section as follows:

- credit risk, on pages 142 to 189;
- market risk, on pages 190 to 198;
- capital resources, on pages 199 to 207; and
- liquidity risk, on pages 208 to 224.

Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments**IAS 19 (revised) Employee Benefits**

In June 2011, the IASB issued revisions to IAS 19 Employee Benefits (IAS 19R or the revised standard). During 2013, Barclays adopted IAS 19R retrospectively in accordance with the transitional provisions set out in the standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. IAS 19R eliminates the "corridor method", under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognised immediately in other comprehensive income. The measurement of the defined benefit obligation takes into account risk sharing features, such as those within our Swiss pension plan. In addition, IAS 19R requires net interest expense / income to be calculated as the product of the net defined benefit liability / asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets.

IFRS 10 Consolidation of Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidation of Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

The implementation of IFRS 10 resulted in the Group consolidating some entities that were previously not consolidated and deconsolidating some entities that were previously consolidated, principally impacting the consolidation of entities in the Investment Bank with credit market exposures. 142 entities were impacted by IFRS10 and were largely within Investment Bank and Wealth divisions. 79 entities were consolidated while 63 entities were deconsolidated.

Movement between the published and restated income statements for 31 December 2011

In the income statement for the year ending 2011, the adoption of the IAS 19 revised standard resulted in staff costs increasing by £109m, tax decreasing by £26m and the profit before tax reducing by £83m. The movement in the staff cost relates to the replacement of expected return on assets with net interest income/expense using the scheme discount rate resulting in further expense of £164m. This is partially offset by amortisation of unrecognised losses £55m no longer being recognised due to the removal of the corridor approach, with all actuarial losses recognised immediately on the balance sheet.

In addition, the adoption of the IAS 19 revised standard resulted in the basic earnings per share decreasing 0.6p from 23.5p to 22.9p and the diluted earnings per share decreasing 0.7p from 22.6p to 21.9p.

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Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued
Consolidated income statement – movement between published and restated

For the year ended 31 December 2011	Published £m	IFRS 10 £m	IAS 19 revised £m	Other ^a £m	Restated £m
Continuing operations					
Interest income	20,589	–	–	–	20,589
Interest expense	(8,388)	–	–	–	(8,388)
Net interest income	12,201	–	–	–	12,201
Fee and commission income	10,208	–	–	–	10,208
Fee and commission expense	(1,586)	–	–	–	(1,586)
Net fee and commission income	8,622	–	–	–	8,622
Net trading income	7,660	–	–	–	7,660
Net investment income	2,305	–	–	–	2,305
Net premiums from insurance contracts	1,076	–	–	–	1,076
Gains on debt buy-backs and extinguishments	1,130	–	–	–	1,130
Other income	39	–	–	–	39
Total income	33,033	–	–	–	33,033
Net claims and benefits incurred on insurance contracts	(741)	–	–	–	(741)
Total income net of insurance claims	32,292	–	–	–	32,292
Credit impairment charges and other provisions	(3,802)	–	–	–	(3,802)
Impairment of investment in BlackRock, Inc.	(1,800)	–	–	–	(1,800)
Net operating income	26,690	–	–	–	26,690
Staff costs	(11,407)	–	(109)	(837)	(12,353)
Administration and general expenses	(6,681)	–	–	837	(5,844)
Depreciation of property, plant and equipment	(673)	–	–	–	(673)
Amortisation of intangible assets	(419)	–	–	–	(419)
Goodwill impairment	(597)	–	–	–	(597)
Provision for PPI redress	(1,000)	–	–	–	(1,000)
Operating expenses	(20,777)	–	(109)	–	(20,886)
Share of post-tax results of associates and joint ventures	60	–	–	–	60
Loss on disposal of subsidiaries, associates and joint ventures	(94)	–	–	–	(94)
Profit before tax	5,879	–	(109)	–	5,770
Taxation	(1,928)	–	26	–	(1,902)
Profit after tax	3,951	–	(83)	–	3,868
Attributable to:					
Equity holders of the Parent	3,007	–	(83)	–	2,924
Non-controlling interests	944	–	–	–	944
Profit after tax	3,951	–	(83)	–	3,868

Movement between the published and restated income statements for 31 December 2012

In the income statement for the year ending 2012, the adoption of the IFRS 10 and IAS 19 revised standards resulted in net operating income increasing by £574m, operating expenses increasing by £23m, tax increasing by £134m and the profit before tax increasing by £551m. The movement in the staff cost relates to the replacement of expected return on assets with net interest income/expense using the scheme discount rate resulting in further expense of £53m. This is partially offset by amortisation of unrecognised losses £31m no longer being recognised due to the removal of the corridor approach, with all actuarial losses recognised immediately on the balance sheet.

In addition, the adoption of the IAS 19 revised and IFRS 10 standards resulted in the basic loss per share decreasing by 3.2p from (8.0)p to (4.8)p and the diluted loss per share also decreasing by 3.2p from (8.0)p to (4.8)p.

Note

a The Group has also realigned outsourcing costs from administration and general expenses to staff costs in order to more appropriately reflect the nature and internal management of these costs. The net effect of these movements is to reduce administration and general expenses and increase staff costs by £837m.

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Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued
Consolidated income statement – movement between published and restated

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 revised £m	Other ^a £m	Restated £m
Continuing operations					
Interest income	19,199	12	–	–	19,211
Interest expense	(7,560)	3	–	–	(7,557)
Net interest income	11,639	15	–	–	11,654
Fee and commission income	10,216	(3)	–	–	10,213
Fee and commission expense	(1,634)	(43)	–	–	(1,677)
Net fee and commission income	8,582	(46)	–	–	8,536
Net trading income	3,025	322	–	–	3,347
Net investment income	817	27	–	–	844
Net premiums from insurance contracts	896	–	–	–	896
Other income	332	–	–	–	332
Total income	25,291	318	–	–	25,609
Net claims and benefits incurred on insurance contracts	(600)	–	–	–	(600)
Total income net of insurance claims	24,691	318	–	–	25,009
Credit impairment charges and other provisions	(3,596)	256	–	–	(3,340)
Net operating income	21,095	574	–	–	21,669
Staff costs	(10,447)	(1)	(22)	(997)	(11,467)
Administration and general expenses	(6,988)	–	–	997	(5,991)
Depreciation of property, plant and equipment	(669)	–	–	–	(669)
Amortisation of intangible assets	(435)	–	–	–	(435)
Provision for PPI redress	(1,600)	–	–	–	(1,600)
Provision for interest rate hedging products redress	(850)	–	–	–	(850)
Operating expenses	(20,989)	(1)	(22)	–	(21,012)
Share of post-tax results of associates and joint ventures	110	–	–	–	110
Profit on disposal of subsidiaries, associates and joint ventures	28	–	–	–	28
Gain on acquisitions	2	–	–	–	2
Profit before tax	246	573	(22)	–	797
Taxation	(482)	(134)	–	–	(616)
(Loss)/profit after tax	(236)	439	(22)	–	181
Attributable to:					
Equity holders of the Parent	(1,041)	439	(22)	–	(624)
Non-controlling interests	805	–	–	–	805
(Loss)/profit after tax	(236)	439	(22)	–	181

Impact of IAS 19 revised standard on the income statement for the year ending 31 December 2013

The impact of the IAS 19 revised standard is an increase in staff costs of £22m and a decrease in tax of £1m. The movement in the staff cost relates to the replacement of expected return on assets with net interest income/expense using the scheme discount rate resulting in a further expense of £113m. This is partially offset by amortisation of unrecognised losses £91m no longer being recognised due to the removal of the corridor approach, with all actuarial losses recognised immediately on the balance sheet.

In addition, the adoption of the IAS 19 revised standard resulted in the basic earnings per share decreasing 0.1p to 3.8p from 3.9p and the diluted earnings per share decreasing 0.1p to 3.7p from 3.8p.

Movement between the published and restated statement of comprehensive income for 31 December 2011

In the statement of comprehensive income for the year ending 2012, the adoption of the IAS 19 revised standard resulted in the other comprehensive income increasing by £748m. This is mainly attributable to the movement which relates to actuarial losses on scheme assets and liabilities no longer being deferred.

Movement between the published and restated statement of comprehensive income for 31 December 2012

In the statement of comprehensive income for the year ending 2012, the adoption of the IAS 19 revised and IFRS 10 standards resulted in the other comprehensive loss increasing by £787m.

A major part of the reduction of £1,235m can be attributed to the IAS 19 revised standard which impacted the retirement benefit remeasurements. The movement is as a result of actuarial losses on scheme assets and liabilities no longer being deferred.

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Note

a The Group has also realigned outsourcing costs from administration and general expenses to staff costs in order to more appropriately reflect the nature and internal management of these costs. The net effect of these movements is to reduce administration and general expenses and increase staff costs by £997m.

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For the year ended 31 December 2013 continued

Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued

Consolidated statement of comprehensive income – movement between published and restated

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 revised £m	Restated £m
(Loss)/profit after tax	(236)	439	(22)	181
Other comprehensive income from continuing operations:				
Currency translation reserve				
– Currency translation differences	(1,578)	30	–	(1,548)
Available for sale reserve				
– Net gains from changes in fair value	1,237	–	–	1,237
– Net gains transferred to net profit on disposal	(703)	–	–	(703)
– Net losses transferred to net profit due to impairment	40	–	–	40
– Net losses transferred to net profit due to fair value hedging	474	–	–	474
– Changes in insurance liabilities	(150)	–	–	(150)
– Tax	(352)	–	–	(352)
Cash flow hedging reserve				
– Net gains from changes in fair value	1,499	–	–	1,499
– Net gains transferred to net profit	(695)	–	–	(695)
– Tax	(142)	–	–	(142)
Other	95	1	–	96
Total comprehensive loss that may be recycled to profit or loss	(275)	31	–	(244)
Other comprehensive loss not recycled to profit or loss:				
Retirement benefit remeasurements	–	–	(1,553)	(1,553)
Deferred tax	–	–	318	318
Other comprehensive loss for the period	(275)	31	(1,235)	(1,479)
Total comprehensive loss for the year	(511)	470	(1,257)	(1,298)
Attributable to:				
Equity holders of the Parent	(1,107)	470	(1,257)	(1,894)
Non-controlling interests	596	–	–	596
	(511)	470	(1,257)	(1,298)

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Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued
Impact of IAS 19 revised standard on the statement of comprehensive income for 31 December 2013

The adoption of the IAS 19 revised standard resulted in the other comprehensive loss increasing by £3,846m. This movement is attributable to the actuarial losses on scheme assets and liabilities no longer being deferred.

Movement between the published 31 December 2011 and restated 1 January 2012 numbers on the balance sheet

The opening balance sheet as of 1 January 2012 and the comparative figures have been presented as if IAS 19R and IFRS 10 had always been applied. The effect of adoption on prior periods is shown in the table below. The adoption of IAS 19R and IFRS 10 has resulted in, total assets decreasing by £1,877m, total liabilities increasing by £305m and total equity decreasing by £2,182m as at 1 January 2012.

The movement on the retirement benefit assets principally relate to recognised losses whilst the movement on the retirement benefit liabilities relates to netting adjustments made to reclassify balances between assets and liabilities where the overall scheme is in a net deficit position. Movements on the assets, liabilities and equities balances are shown in the table below:

As at December 2011	Published £m	IFRS 10 £m	IAS 19 revised £m	Restated £m
Assets				
Cash and balances at central banks	106,894	96	–	106,990
Items in the course of collection from other banks	1,812	–	–	1,812
Trading portfolio assets	152,183	1,325	–	153,508
Financial assets designated at fair value	36,949	818	–	37,767
Derivative financial instruments	538,964	13	–	538,977
Available for sale investments	68,491	4	–	68,495
Loans and advances to banks	47,446	(24)	–	47,422
Loans and advances to customers	431,934	(2,375)	–	429,559
Reverse repurchase agreements and other similar secured lending	153,665	(635)	–	153,030
Prepayments, accrued income and other assets	4,563	2	–	4,565
Investments in associates and joint ventures	427	60	–	487
Property, plant and equipment	7,166	–	–	7,166
Goodwill and intangible assets	7,846	–	–	7,846
Current and deferred tax assets	3,384	283	318	3,985
Retirement benefit assets	1,803	–	(1,762)	41
Total assets	1,563,527	(433)	(1,444)	1,561,650
Liabilities				
Deposits from banks	91,116	7	–	91,123
Items in the course of collection due to other banks	969	–	–	969
Customer accounts	366,032	(505)	–	365,527
Repurchase agreements and other similar secured borrowing	207,292	–	–	207,292
Trading portfolio liabilities	45,887	–	–	45,887
Financial liabilities designated at fair value	87,997	456	–	88,453
Derivative financial instruments	527,910	339	–	528,249
Debt securities in issue	129,736	(58)	–	129,678
Subordinated liabilities	24,870	–	–	24,870
Accruals, deferred income and other liabilities	12,580	274	–	12,854
Provisions	1,529	–	–	1,529
Current and deferred tax liabilities	2,092	(1)	(129)	1,962
Retirement benefit liabilities	321	–	(78)	243
Total liabilities	1,498,331	512	(207)	1,498,636
Total equity				
Shareholders' equity excluding non-controlling interests	55,589	(945)	(1,237)	53,407
Non-controlling interests	9,607	–	–	9,607
Total equity	65,196	(945)	(1,237)	63,014
Total liabilities and equity	1,563,527	(433)	(1,444)	1,561,650

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For the year ended 31 December 2013 continued

Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued
Movement between the published and restated balance sheet as at 31 December 2012

The adoption of the IAS 19 revised and IFRS 10 standards resulted in a decrease of £1,986m in the total assets, an increase of £985m in total liabilities and a reduction of the shareholders equity by £2,971m.

The movement on the retirement benefit assets principally relate to recognised losses, netting adjustments made to reclassify balances from assets to liabilities where the overall scheme is in a net deficit position and changes to asset values due to the removal of the expected return on assets. The movement on the retirement benefit liabilities relates to netting adjustments. Movements on the assets, liabilities and equities balances are shown in the table below:

Consolidated balance sheet – movement between published and restated

As at 31 December 2012	Published £m	IFRS 10 £m	IAS 19 revised £m	Restated £m
Assets				
Cash and balances at central banks	86,175	16	–	86,191
Items in the course of collection from other banks	1,456	17	–	1,473
Trading portfolio assets	145,030	1,322	–	146,352
Financial assets designated at fair value	46,061	568	–	46,629
Derivative financial instruments	469,146	10	–	469,156
Available for sale investments	75,109	–	–	75,109
Loans and advances to banks	40,489	(27)	–	40,462
Loans and advances to customers	425,729	(1,823)	–	423,906
Reverse repurchase agreements and other similar secured lending	176,956	(434)	–	176,522
Prepayments, accrued income and other assets	4,360	5	–	4,365
Investments in associates and joint ventures	570	63	–	633
Property, plant and equipment	5,754	–	–	5,754
Goodwill and intangible assets	7,915	–	–	7,915
Current tax assets	252	–	–	252
Deferred tax assets	3,016	139	408	3,563
Retirement benefit assets	2,303	–	(2,250)	53
Total assets	1,490,321	(144)	(1,842)	1,488,335
Liabilities				
Deposits from banks	77,010	2	–	77,012
Items in the course of collection due to other banks	1,573	14	–	1,587
Customer accounts	385,707	(296)	–	385,411
Repurchase agreements and other similar secured borrowing	217,342	(164)	–	217,178
Trading portfolio liabilities	44,794	–	–	44,794
Financial liabilities designated at fair value	78,280	281	–	78,561
Derivative financial instruments	462,468	253	–	462,721
Debt securities in issue	119,581	(56)	–	119,525
Subordinated liabilities	24,018	–	–	24,018
Accruals, deferred income and other liabilities	12,232	300	–	12,532
Provisions	2,766	–	–	2,766
Current tax liabilities	621	(1)	–	620
Deferred tax liabilities	719	–	(377)	342
Retirement benefit liabilities	253	–	1,029	1,282
Total liabilities	1,427,364	333	652	1,428,349
Total equity				
Shareholders' equity excluding non-controlling interests	53,586	(477)	(2,494)	50,615
Non-controlling interests	9,371	–	–	9,371
Total equity	62,957	(477)	(2,494)	59,986
Total liabilities and equity	1,490,321	(144)	(1,842)	1,488,335

Impact of IAS 19 revised standard on the balance sheet as at 31 December 2013

The adoption of the IAS 19 revised standard resulted in a change from a defined benefit asset of £2,066m to a defined benefit liability of £1,780m. This movement is due to actuarial losses of £3,846m being recognised on the balance sheet.

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Note 46: Transition Notes – Changes in accounting policies, comparability and other adjustments continued
Movement between the published and restated cash flow statement for 31 December 2012

The adoption of IFRS 10 standard mainly impacted the net cash from operating activities which further decreased by £107m during the year ending 2012. The cash and cash equivalents at the beginning of the year increased by £96m while the cash and cash equivalents at the end of the year reduced by £11m.

However, the adoption of the IAS 19 revised had no impact on the cash movements for the years ended 2011, 2012 and 2013.

Consolidated cash flow statement – movement between published and restated

For the year ended 31 December 2012	Published £m	IFRS 10 £m	IAS 19 revised £m	Restated £m
Continuing operations				
Reconciliation of profit before tax to net cash flows from operating activities:				
Profit before tax	246	573	(22)	797
Adjustment for non-cash items:				
Allowance for impairment	3,596	(256)	–	3,340
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	1,119	–	–	1,119
Other provisions, including pensions	3,057	23	–	3,080
Net profit on disposal of investments and property, plant and equipment	(679)	–	–	(679)
Other non-cash movements	5,448	95	22	5,565
Changes in operating assets and liabilities				
Net decrease/(increase) in loans and advances to banks and customers	2,231	(399)	–	1,832
Net (increase)/decrease in reverse repurchase agreements and other similar lending	(23,291)	(201)	–	(23,492)
Net (decrease)/increase in deposits and debt securities in issue	(4,594)	206	–	(4,388)
Net increase/(decrease) in repurchase agreements and other similar borrowing	10,050	(164)	–	9,886
Net decrease/(increase) in derivative financial instruments	4,376	(83)	–	4,293
Net decrease/(increase) in trading assets	6,893	3	–	6,896
Net (decrease)/increase in trading liabilities	(973)	–	–	(973)
Net (increase)/decrease in financial investments	(18,838)	74	–	(18,764)
Net decrease in other assets	555	(20)	–	535
Net (decrease) in other liabilities	(1,396)	42	–	(1,354)
Corporate income tax paid	(1,516)	–	–	(1,516)
Net cash from operating activities	(13,716)	(107)	–	(13,823)
Purchase of available for sale investments	(80,796)	(1)	–	(80,797)
Proceeds from sale or redemption of available for sale investments	73,769	4	–	73,773
Purchase of property, plant and equipment	(604)	–	–	(604)
Other cash flows associated with investing activities	532	(1)	–	531
Net cash from investing activities	(7,099)	2	–	(7,097)
Dividends paid	(1,427)	–	–	(1,427)
Proceeds of borrowings and issuance of subordinated debt	2,258	–	–	2,258
Repayments of borrowings and redemption of subordinated debt	(2,680)	–	–	(2,680)
Net issue of shares and other equity instruments	97	–	–	97
Net (purchase)/disposal of treasury shares	(979)	–	–	(979)
Net redemption of shares issued to non-controlling interests	(111)	–	–	(111)
Net cash from financing activities	(2,842)	–	–	(2,842)
Effect of exchange rates on cash and cash equivalents	(4,109)	(2)	–	(4,111)
Net (decrease)/increase in cash and cash equivalents	(27,766)	(107)	–	(27,873)
Cash and cash equivalents at beginning of year	149,673	96	–	149,769
Cash and cash equivalents at end of year	121,907	(11)	–	121,896
Cash and cash equivalents comprise:				
Cash and balances at central banks	86,175	16	–	86,191
Loans and advances to banks with original maturity less than three months	33,500	(27)	–	33,473
Available for sale treasury and other eligible bills with original maturity less than three months	2,228	–	–	2,228
Trading portfolio assets with original maturity less than three months	4	–	–	4
	121,907	(11)	–	121,896

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Note 47: Barclays PLC (the Parent Company)**Cost of investment in subsidiary**

The cost of investment in subsidiary held by Barclays PLC (the Parent Company) represents investments made into Barclays Bank PLC. The £8.6bn increase was made up of £5.8bn and £0.7bn of capital injections into Barclays Bank PLC subsequent to the Barclays PLC rights issue and warrants converted respectively. A further £2.1bn was invested in Barclays Bank PLC in exchange for Additional Tier 1 Notes issued by Barclays Bank PLC.

Derivative financial instrument and other (expense)/income

The derivative financial instrument held by the Parent Company represents Barclays PLC's right to receive a Capital Note for no additional consideration, in the event the Barclays PLC consolidated Core Tier 1 (CT1) or Common Equity Tier 1 (CET 1) ratio, as appropriate, falls below 7%, at which point the notes are automatically assigned by the holders to Barclays PLC. The changes in the fair value of the derivative financial instrument are reported in the income statement as other (expense)/income.

Other assets

Other assets held by the Parent Company include a £739m (2012: £nil) receivable held by Barclays PLC which is payable by Barclays Bank PLC. The receivable arose as a result of shares issued by Barclays PLC to fund share awards for employee share schemes within Barclays Bank PLC.

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