Barclays Bank PLC
Annual Report 2012

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The term 'Barclays PLC Group' or the 'Group' means Barclays PLC together with its subsidiaries and the term 'Barclays Bank PLC Group' means Barclays Bank PLC together with its subsidiaries. 'Barclays' is used to refer to either of the preceding groups when the subject matter is identical. The term 'Parent Company' or 'Parent' refers to Barclays PLC and the term 'Bank' or 'Company' refers to Barclays Bank PLC. The term 'The Group' refers to Barclays Bank PLC together with its subsidiaries and 'The Bank' refers to Barclays Bank PLC. In this report the abbreviations £m and £bn represent millions and thousands of millions of pounds respectively; $m and $bn represent millions and thousands of millions of US dollars respectively; €m and €bn represent millions and thousands of millions of euros respectively. Information relates to the Group unless otherwise stated.
Unless otherwise stated, the income statement analyses compare the 12 months to 31 December 2012 to the corresponding 12 months of 2011 and balance sheet comparisons relate to the corresponding position at 31 December 2011.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "may", "will", "seek", "continue", "aim", "anticipate", "target", "projected", "expect", "estimate", "intend", "plan", "goal", "believe", "achieve" or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, income growth, assets, impairment charges, business strategy, capital ratios, leverage, payment of dividends, projected levels of growth in the banking and financial markets, projected costs, commitments in connection with the TRANSFORM programme, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, UK domestic, Eurozone and global macroeconomic and business conditions, the effects of continued volatility in credit markets, market related risks such as changes in interest rates and foreign exchange rates, effects of changes in valuation of credit market exposures, changes in valuation of issued notes, the policies and actions of governmental and regulatory authorities (including requirements regarding capital and Group structures and the potential for one or more countries exiting the Eurozone), changes in legislation, the further development of standards and interpretations under International Financing Reporting Standards as adopted by the EU ("IFRS") and prudential capital rules applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, the outcome of current and future legal proceedings, the success of future acquisitions and other strategic transactions and the impact of competition, a number of such factors being beyond the Group's control. As a result, the Group's actual future results may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements.

Any forward-looking statements made herein speak only as of the date they are made. Except as required by the UK Financial Services Authority (FSA), the London Stock Exchange plc (the "LSE") or applicable law, Barclays expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Barclays expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Barclays has made or may make in documents it has published or may publish via the Regulatory News Service of the LSE and/or has filed or may file with the US Securities and Exchange Commission

Governance

Directors' report

Principal Activities and Business Review

The Directors are required to set out in this report a fair review of the business of The Group during the financial year ended 31 December 2012 and of the position of The Group at the end of the financial year and a description of the principal risks and uncertainties facing The Group (known as a 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company).

The information that fulfils the requirements of the Business Review can be found in the following sections of the Annual Report, which are incorporated into this report by reference:

	Pages
Risk review	11
Financial review	106
Key performance indicators	106

From the perspective of the Company, the review of the business and the principal risks and uncertainties facing the Company are integrated with those of Barclays PLC, the Company's ultimate parent. Therefore additional information may be found in the 2012 Annual Report of Barclays PLC, which does not form part of this report.

Barclays is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking and wealth management. Barclays operates through branches, offices and subsidiaries in the UK and overseas.

The results of The Group show a pre-tax profit of £99m (2011: £5,974m) for the year and loss after tax of £384m (2011: profit of £4,046m). The Group had net assets of £62,894m at 31 December 2012 (2011: £65,170m).

Loss/Profit Attributable

The loss attributable to Barclays Bank PLC, The Group's parent, for the year 2012 amounted to £723m (2011: profit of £3,616m).

Dividends

Total dividends on ordinary shares paid during 2012 are set out in Note 11 to the accounts. Dividends paid on preference shares for the year ended 31 December 2012 amounted to £465m (2011: £467m).

Share Capital

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

Directors

The Directors of the Company are listed on page 6. The Directors' interests in shares are set out on page 84 of the Remuneration Report in Barclays PLC's Annual Report and Accounts. The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical.

Bob Diamond, Alison Carnwath and Marcus Agius left the Board with effect from 3 July 2012, 24 July 2012 and 31 October 2012 respectively. Sir David Walker, Antony Jenkins and Tim Breedon joined the Board on 1 September 2012, 30 August 2012 and 1 November 2012 respectively. There were no other changes to Directors in 2012. Diane de Saint Victor was appointed as a director with effect from 1 March 2013.

Directors' Indemnities

The Company maintains Directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2012 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Community Involvement

Barclays provides funding and support to over 8,500 charities, voluntary organisations and social enterprises ranging from small local organisations, such as Bikeworks, which provides disadvantaged young people in London with training to help them develop key skills to find employment in the cycling industry, to international organisations such as CARE International. The Group committed £32.1m in support of the community in the UK (2011: £30.3m), including charitable donations of £22.5m (2011: £22.6m). Further information on our community involvement can be found on page 108.

Employee Involvement

Regular two-way communications, both informally, and through our Employee Opinion Surveys and dialogue in events such as global Town Hall meetings are important in helping us understand our colleagues' views and concerns, and ensuring colleagues are well informed, understand the bank's objectives and remain engaged and connected with the future of Barclays. Our "Partnership" approach to industrial relations maintains regular and constructive dialogue with more than 30 unions, works councils and staff associations across the globe, and we have worked closely with employee representatives to avoid compulsory redundancies where possible and ensure colleagues leaving Barclays have been supported and treated with respect.

Our People processes specifically those linked to Performance Management, Reward and Talent (including promotions and mobility) are subject to increased focus as we devise strategies for each to support TRANSFORM and Barclays Values and Behaviours. We will continue to base variable remuneration on individuals' performance ratings and the performance of their business, and continue to encourage our people to be involved and to share in our success by regularly inviting them to participate in our "all employee" share plans. Further details of our approach to remuneration are included in the Remuneration Report in the Barclays PLC Annual report.

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

Governance

Directors' report

We continue to provide a range of opportunities and tailored training programmes for graduates and also continue to play an active role in addressing societal challenges around employability, for example, through our Apprenticeship Programme, which seeks to contribute to addressing the problem of youth unemployment in the UK.

Environment

In 2011 we launched the Barclays Climate Action Programme – a four-year plan which focuses on addressing environmental issues where we believe we have the greatest potential to make a difference. The Programme focuses on managing our own carbon footprint and reducing our absolute carbon emissions; developing products and services to help enable the transition to a low-carbon economy, and managing the risks of climate change to our operations, clients, customers and society at large. We invest in improving the energy efficiency of our operations and offset the emissions remaining through the purchase of carbon credits. We met our 2013 4% carbon reduction target ahead of schedule in 2012 and are due to publish a new 2015 target in the next version of our Citizenship Plan in June 2013. We also have a long-standing commitment to managing the environmental and social risks associated with our lending practices, which is embedded into our Credit Risk processes. A governance structure is in place to facilitate clear dialogue across the business and with suppliers around issues of potential environmental and social risk. More details may be found on our website at www.barclays.com/citizenship.

Creditors' Payment Policy

Barclays policy follows the Department for Business, Innovation & Skills' Prompt Payment Code, copies of which can be obtained from the Prompt Payment Code website at www.promptpaymentcode.org.uk. The trade creditor payment days for Barclays Bank PLC for 2012 were 38 days (2011: 37 days)[a]. This is an arithmetical calculation based on the Companies Act regulations and does not necessarily reflect our practice, nor the experience of any individual creditor.

Essential business contracts

There are no persons with whom the Group has contractual or other arrangements that are considered essential to the business of the Group.

Contracts of Significance

Barclays provided BlackRock, Inc. (BlackRock) with customary warranties and indemnities in connection with the sale of Barclays Global Investors (BGI) to BlackRock in 2009. Barclays continued to provide indemnities in respect of certain of BGI's fully collateralised securities lending activities until 30 November 2012 and will continue to provide support in respect of certain BGI cash funds until December 2013

Research and Development

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

Note
a The 2011 figure is restated as the figure reported in the 2011 Directors' Report did not include data from all business divisions.

Financial Instruments

Barclays financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out in pages 23 to 65 and 71 to 95.

The Auditors

The Board Audit Committee (BAC) reviews the appointment of the external auditors, as well as their relationship with The Group, including monitoring The Group's use of The Group's auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found in Note 8 to the accounts.

PricewaterhouseCoopers LLP (PwC) and its predecessor firms has been The Group's auditor for many years, although the lead audit partner now rotates every five years. The current lead audit partner joined the audit team for the 2010 year end and will retire after the 2014 year end.

Having carried out a survey the Board Audit Committee of Barclays PLC concluded that it continues to be fully satisfied with the performance of PwC and that PwC continues to be objective and independent. The auditor's objectivity and independence is supported by Barclays policy on non-audit services provided by the auditor. PwC also provides specific assurance to the Committee on the arrangements it has in place to maintain its independence and objectivity. PwC have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2013 AGM. The Board Audit Committee recognises however that the length of tenure of auditors is under increasing scrutiny and is therefore considering, in light of the new requirement in the UK Corporate Governance Code that the external audit contract is put out to tender at least every ten years, how and when a tender process might be implemented, particularly given the transitional provisions suggested by the Financial Reporting Council. A recommended course of action will be proposed during 2013. So far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, 'relevant audit information' means information needed by the Company's auditors in connection with preparing their report.

By order of the Board

Lawrence Dickinson

Joint Secretary

5 March 2013

Governance

Directors and Officers

Statements of Directors responsibilities for accounts

Current Directors and Officers

Sir David Walker – Group Chairman

Executive Directors:
Antony Jenkins – Group Chief Executive
Chris Lucas – Group Finance Director

Non-executive Directors:
David Booth
Tim Breedon
Fulvio Conti
Simon Fraser
Reuben Jeffery III
Sir Andrew Likierman
Dambisa Moyo
Sir Michael Rake – Deputy Chairman
Diane de Saint Victor
Sir John Sunderland

Current Executive Committee members		Appointed to Executive Committee
Antony Jenkins	Group Chief Executive	2009
Chris Lucas	Group Finance Director	2007
Mark Harding	Group General Counsel	2009
Tom Kalaris	Chief Executive, of Wealth and Investment Banking, Executive Chairman of Barclays in the Americas	2009
Robert Le Blanc	Chief Risk Officer	2009
Maria Ramos	Chief Executive, Absa and Barclays Africa	2009
Rich Ricci	Chief Executive of Corporate and Investment Banking	2009
Sir Hector Sants	Head of Compliance, Government and Regulatory Regulation	2013
Ashok Vaswani	Chief Executive of Retail and Business Banking	2012
Valarie Soranno Keating	Chief Executive of Barclaycard	2012

Other Officers		Appointed to position
Lawrence Dickinson	Joint Secretary	2002
Patrick Gonsalves	Joint Secretary	2002
Peter Estlin	Co-Head of Finance	2012
Mark Merson	Financial Controller and Co-Head of Finance	2012

Going concern

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

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

Statement of Directors' responsibilities for accounts

The following statement, which should be read in conjunction with the Auditors' report set out on page 129, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

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

The Directors consider that, in preparing the accounts on pages 131 to 136, and the additional information contained on pages 137 to 226, the Group has used appropriate accounting policies, supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

Disclosure controls and procedures

The Group Chief Executive, Antony Jenkins, and the Group Finance Director, Chris Lucas, conducted with Group Management an evaluation of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31st December 2012, which are defined as those controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within the time periods specified in the US Securities and Exchange Commission's rules and forms. As of the date of the evaluation, the Group Chief Executive and Group Finance Director concluded that the design and operation of these disclosure controls and procedures were effective.

The Directors confirm to the best of their knowledge that:

(a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole; and

(b) The management report, which is incorporated into the Directors' Report on pages 4 and 5, includes a fair review of the development and performance of the business and the position of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

Sir David Walker
Group Chairman
5 March 2013
Registered in England. Company No 1026167.

About Barclays

Strategic report

About Barclays

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking, and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs approximately 140,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Our focus

Barclays Strategic Review concluded that we will:

- Focus solely on activities that support customers and clients in geographic markets and businesses where Barclays has scale and competitive advantage;
- Focus investment in the UK, US and Africa, while maintaining an appropriate presence across Europe and Asia to support our global investment banking franchise;
- Restructure Barclays European retail operations to focus on the mass affluent customer segment;
- Reposition Barclays European and Asian Equities and Investment Bank Division businesses to reflect the market opportunities and maintain a relevant proposition for our clients;
- Close the Structured Capital Markets business unit;
- Manage risk weighted assets (RWAs) more efficiently through a run-off of legacy assets in Europe and the Investment Bank and invest in high-return businesses such as UK mortgages, Barclaycard and Wealth and Investment Management; and
- Reduce total costs significantly across the Group by operating more efficiently.

How Barclays does business

The objective of our strategy is to create and deliver long-term sustainable value for all our stakeholders – in the right way.

We fulfil our purpose by delivering the fundamental functions of a bank to our customers and clients for which we receive interest income and/or fees.

Our competitive advantage

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

Scale and diversity allow us to build sustainable businesses by delivering operational excellence, investing in innovation, managing our risks and allocating scarce resources, including capital, efficiently across our portfolio of businesses. Our people allow us to cultivate deeper relationships with our customers and clients by bringing the best of Barclays to each.

As we refresh our goal, purpose and values and rebalance our objectives across multiple stakeholders, we believe we can drive continuous improvement upon these foundations and become the bank of choice for people regardless of the transaction they are looking to make.

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How our businesses create value

Business type	Primary income source	Description
Retail and Business Banking	Interest and fee income	We accept customer deposits in exchange for interest payment. We lend these funds, for an interest charge, to individuals and businesses looking to grow and make meaningful contributions to the economy.
Barclaycard	Interest income and transaction fees	We facilitate and simplify the flow of funds between customers and businesses for a small percentage of the transaction and, in the case of credit cards, we earn interest income on credit balances.
Investment Bank	Trading income and fee income	We provide clients with financial and transaction advice, assistance with capital raising, trade execution and risk management for which we earn trading and fee income.
Corporate Banking	Interest and fee income	We provide clients with banking, cash management and financing services, in exchange for interest and fees, to facilitate growing businesses' ability to conduct business both domestically and internationally.
Wealth and Investment Management	Interest and fee income	We help affluent customers to grow and protect their wealth through advisory and investment services, for which we earn a fee, and private and international banking, on which we earn interest.

UK Retail and Business Banking (UKRBB)

UKRBB is our UK-based high street retail bank network and brand presence for the Group. UKRBB provides customer referrals for Barclaycard, Wealth and Investment Management and Corporate Banking; and retail banking platforms and infrastructure.

UKRBB has over 15 million personal customers, one million of whom are classified as mass-affluent and serves over 750,000 businesses. Our strategy is to develop and deliver simple and transparent products, run on scalable infrastructure and we invest heavily to try to enhance our customers' experiences.

In October, Barclays agreed to acquire the deposits, mortgages and business assets of ING Direct UK. It is a good fit with our existing business and will be integrated into UKRBB. Completion is expected in March 2013, subject to approval.

Our customers

We have put the customer in control by developing services and propositions that they can personalise to suit their needs. Our new current account proposition, Features Store, allows customers to tailor their banking relationship across a range of free and paid for features, whilst over 400,000 customers have taken advantage of the ability to personalise their debit card.

Barclays Mobile Banking app, Pingit and Text Alerts were launched with the aim of making customers' lives much easier. These services help people to do their everyday banking, track payments and to send and receive money at any time, wherever they are. We also changed to a customer service based incentive scheme for our frontline staff, to ensure that our customers remain at the heart of our business.

Europe Retail and Business Banking (Europe RBB)

Europe RBB offers a full range of banking, investment and insurance products tailored to meet our customers' financial needs. We provide services to over 1.5 million retail customers and businesses in Europe.

Within our customer base, we focus on the mass affluent segment and offer a differentiated proposition. Our business leverages the expertise of Barclays other Retail and Business Banking franchises to benefit our client base as well as to exploit synergies across our non-retail European businesses.

Our customers

In 2012, we took advantage of the expertise of our other Retail and Business Banking franchises to better serve customers and made good progress against our long-term vision of making our customers' lives much easier. For instance, we simplified some of our most manual customer processes and launched mobile banking to allow customers in Spain, Italy and France to access their accounts on the move.

We also introduced a system into our French network that allows staff to quickly determine a customer's investment profile and monitor their portfolios in real time. This system saves time, improves customer service and enhances our oversight over advisory services.

Africa

Barclays in Africa comprises a local Retail and Business Bank, along with a local presence for Barclays global businesses – Barclaycard, Corporate Banking, Investment Bank and Wealth and Investment Management. Africa provides the Group with emerging market exposure and a promise of growth. Together, we serve over 14.3 million customers and clients across 14 countries.

Our One Africa strategy focuses on broadening services in leading markets and investing in new geographies. We uniquely position ourselves as a fully global and fully local bank to deliver a superior customer and client experience in Africa.

In 2012, we consolidated our Barclays Africa and Absa banking operations into a single management structure. In 2013, subject to the receipt of regulatory approvals, the majority of Barclays Africa businesses and Absa will be brought under one legal entity to create a leading pan-African financial services business.

Africa Retail and Business Banking (Africa RBB)

Barclays Group reports Africa RBB separately and the following information relates specifically to the RBB. Our global businesses participating in Africa are integrated within each business report.

Our RBB Customers and Clients

As part of our goal to make customers lives much easier, we rolled out several new online banking services to customers across Africa as well as Pingit and Barclays Mobile Banking. For our mass-affluent customers, we have launched Premier Banking and Barclays Direct.

We deployed our global, regional and local capabilities to the benefit of our corporate clients in landmark deals, such as the partnership of Kenya Airways and Barclays Bank of Kenya with Visa to relaunch an airline co-branded credit card.
Life insurance products have been launched in Botswana,

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Mozambique, Zambia and Ghana via our bancassurance model, through the Barclays branch network. Two new Islamic banking products have been launched in Kenya by leveraging Group capabilities and synergies.

Barclaycard

Barclaycard, the 8th largest payment business in the world, provides the Group with exposure to the fast growing global payments industry and is an important source of new relationships to Barclays for both individual and business customers.

Barclaycard serves 29 million retail and business customers across the world, including the United Kingdom, United States, Germany, South Africa through Absa Card and Norway, Sweden and Denmark through the EnterCard joint venture.

Barclaycard is investing in core consumer cards issuing to gain share in all markets, rebalancing towards high-return business payments and continuing to lead in payment innovation to meet evolving customer needs.

Barclaycard received numerous awards in 2012, including the Moneyfacts: Best Card Provider 2012 award in the UK and Forrester Voice of the Customer award in the US.

Our customers

Barclaycard has a heritage of innovation, starting from the launch of the first credit card in the UK in 1966. Since 2011, Barclaycard has launched several new products to meet evolving customer needs, including Freedom and Cashback consumer cards in the UK, Google Adwords for UK SMEs, Barclaycard Plus for online consumer spending in Germany and the world's first social media credit card, Barclaycard Ring in the US.

Digital payments are a major part of our innovation and in 2012 we enabled over 750,000 mobile phones to make payments (using PayTag) across three countries and helped increase contactless transactions by over 250% year on year in the UK.

Investment Bank

Barclays integrated universal banking model, with a presence in 50 countries, allows us to meet the needs of our clients by connecting capabilities from across the Group. The Investment Bank aims to be the 'Go-To' bank for corporate and institutional clients, providing them with the products and services they need to invest, grow and manage risk.

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

Our business model

Investment Banking Division

Our Investment Banking Division provides a full suite of banking services to corporations, governments and institutions worldwide. Services include arranging and underwriting debt and equity issuance, providing advice on mergers and acquisitions, corporate finance and restructurings, making active markets for securities across global debt and equity exchanges and delivering strategic risk management solutions.

Markets

Our Markets team provides execution and risk management across the full range of asset classes including equity and fixed income, currency and commodity (FICC) products.

We facilitate client transactions on stock, options and futures exchanges globally and provide prime brokerage services, including clearing, financing and securities lending, to institutional clients. We are active market-makers for securities across every asset class, helping to provide liquidity to the world's financial markets.

We also provide access to derivative products allowing organisations to hedge exposure to movements in interest rates, currencies and commodity prices.

A combined Markets team was established October 2012, integrating our FICC, Equities and Distribution divisions. This new structure will enable us to deliver more joined up solutions for our clients, and deliver greater synergies across product groups and trading and distribution teams.

Research

Our global, multi asset Research team delivers actionable ideas and innovative products to our clients, partnering with them to help ensure they make informed investment decisions. Our expertise in debt, equity and economic research provides our clients with impartial, insightful advice on global and regional companies, markets and topics.

Our clients

Our clients include multi-national corporates, sovereign governments and supranational bodies and financial institutions, including banks, pension funds and insurance firms.

We help corporate clients to achieve growth and job creation in the real economy, governments to deliver their stability and growth plans, and institutions to meet the long-term investment needs of their clients.

In 2012, we were once again recognised for the strength of our client focus and were awarded Best US Investment Bank and Best UK Investment Bank by Euromoney.

Corporate Banking

Corporate Banking is an integral part of Barclays' universal banking offering. We help over 40,000 corporations achieve their ambitions. This includes multinational corporates and financial institutions globally, and domestic corporations in the UK and South Africa. Corporate Banking has stable revenues and is self-funded.

Our clients

We work closely with clients to fully understand their business and build long-term, broad-based relationships. As a result, in the UK we are the market-leader for client satisfaction[a].

Note

a Source: Charterhouse Research based on 2,076 interviews with companies turning over between £5m and £1bn carried out in YE Q4 2012.

About Barclays

Strategic report

We continue to strive for ever better client servicing, and in 2012 a Global Corporates team was established jointly between Corporate Banking and the Investment Bank. The objective is to strengthen existing client relationships and provide more corporate banking solutions to the treasuries of our largest multinational clients. In 2012 we launched the new Cash Management offering, Pingit for Corporates, providing clients with more efficient and convenient ways to manage payments. We also continued to invest in our client servicing model.

We continue to focus on products that are important to our clients, and therefore invest in our Cash Management and Trade Finance capabilities. Key initiatives are underway, and in 2012, we launched our cash management platform Barclays.net, and invested in Trade Finance hubs in key locations. We are also in the process of enhancing an integrated Corporate Banking offering with Absa across Africa.

Wealth and Investment Management

Wealth and Investment Management (W&IM) provides a full range of wealth management services to affluent and high-net-worth clients globally, including banking, credit, investments and advisory services.

We aim to be the 'Go-To' wealth manager for clients by helping them to better understand, organise and invest their wealth.

We believe the best way to support clients is to have deep knowledge of their full financial position. Amongst other techniques, we use the principles of behavioural finance to tailor investment and structuring solutions for each client through use of our proprietary Financial Personality Assessment tool.

In addition to providing comprehensive wealth management services to affluent and high-net-worth clients, we bring the best of all areas of Barclays to these clients, be it retail, business, corporate or investment banking.

2012 marked the third year of W&IM's five year strategic investment programme, known as Project Gamma, to transform our business through improvements to client experience and productivity. It continues to progress well, with 2012 seeing continued improvement in both these areas.

Our clients

In 2012 we launched a new digital client portal, which allows clients to self-serve more effectively, when and how they prefer. In addition, we initiated more detailed client reporting, voice biometrics for identification purposes, an upgraded portfolio management and construction tool, a more streamlined onboarding of new clients and quicker and simpler credit applications.

Risk review
Overview

Overview (audited)
There are no differences in the manner in which risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group. Therefore, the explanations of the management, the control responsibilities and the measurement described in this section are those for the Barclays PLC Group, which includes the Barclays Bank PLC Group. The amounts included in these notes are those for Barclays Bank PLC. For more detailed descriptions of Barclays risk management approach refer to the Barclays PLC Annual Report and the Pillar III Report.

The Group is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Financial instruments are fundamental to the Group's business and managing financial risks, especially credit risk, is a fundamental part of its business activity.

The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits, and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date data. Risk management policies, models and systems are regularly reviewed to reflect changes to markets, products and best market practice.

Risk responsibilities
The *Board* is responsible for approving risk appetite, which is the level of risk the Group chooses to take in pursuit of its business objectives. The Chief Risk Officer regularly presents a report to the Board summarising developments in the risk environment and performance trends in the key portfolios. The Board is also responsible for the Internal Control and Assurance Framework (Group Control Framework). It oversees the management of the most significant risks through the regular review of risk exposures and related key controls. Executive management responsibilities relating to this are set via the Group's Principal Risks Policy.

The *Board Risk Committee* (BRC) monitors the Group's risk profile against the agreed appetite. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the BRC is comfortable with them. After each meeting, the Chair of the BRC prepares a report for the next meeting of the Board. Barclays first established a separate Board Risk Committee in 1999 and all members are non-executive directors. The Finance Director and the Chief Risk Officer attend each meeting as a matter of course .The BRC receives regular and comprehensive reports on risk methodologies and the Group's risk profile including the key issues affecting each business portfolio and forward risk trends. The Committee also commissions in-depth analyses of significant risk topics, which are presented by the Chief Risk Officer or senior risk managers in the businesses. The Chair of the Committee prepares a statement each year on its activities.

The *Board Audit Committee* receives quarterly reports on control issues of significance and a half-yearly review of the adequacy of impairment allowances, which it reviews relative to the risk inherent in the portfolios, the business environment, the Group's policies and methodologies and the performance trends of peer banks. The Chair of the Board Audit Committee also sits on the Board Risk Committee.

The *Board Remuneration Committee* receives a detailed report on risk management performance from the Board Risk Committee which is considered in the setting of performance objectives in the context of incentive packages.

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

The Chief Risk Officer is a member of the Executive Committee and has overall day-to-day accountability for risk management under delegated authority from the Chief Executive. The Chief Executive must consult the Chairman of the Board Risk Committee in respect of the Chief Risk Officer's performance appraisal and compensation as well as all appointments to or departures from the role.

The Chief Risk Officer manages the independent Group Risk function and chairs the Financial Risk Committee and the Operational Risk Committee, which monitor the Group's financial and non-financial risk profile relative to established risk appetite. Reporting to the Chief Risk Officer, and working in the Group Risk function, are risk-type heads for retail credit risk, wholesale credit risk, market risk, operational risk and fraud risk. Along with their teams, the risk-type heads are responsible for establishing a Group-wide framework for oversight of the risks and controls of their risk type. These risk-type teams liaise with each business as part of the monitoring and management processes.

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

In order to strengthen the Board-level governance over conduct risk and reputation matters we have created a Board Conduct, Reputation and Operational Risk Committee in 2013. As a consequence the Board Risk Committee will have oversight of credit, market and funding risk matters and will be renamed the Board Financial Risk Committee.

The risk type heads within the central Group Risk function and the BCROs within the business units report to the Chief Risk Officer and are members of the Financial Risk Committee or Operational Risk Committee as appropriate.

The main risks affecting the Group are discussed in Notes 12 to 22.

Risk review
Risk factors

The following information describes the material risks which the Group believes could cause its future results of operations, financial condition and prospects to differ materially from current expectations. Certain of the risks described below also have the potential to adversely impact the Group's reputation and brand which could adversely affect the Group's results of operations, financial condition and prospects.

Business conditions and the general economy

Barclays offers a very broad range of services to personal and institutional customers, including governments. The Group has significant activities in a large number of countries. Consequently, there are many ways in which changes in business conditions and the economy in a single country or region or globally can adversely impact profitability, whether at the level of the Group, the individual business units or specific countries of operation.

During 2012, the economic environment in Barclays main markets was marked by generally weak or negative growth (as measured by GDP), which has affected business, consumer and investor confidence across these regions. Economic performance in the near term remains uncertain and is expected to be subdued, which may in some cases lead to material adverse impacts on the Group's operations, financial condition and prospects, through, for example, changes in credit ratings, share price, and solvency of counterparties, as well as higher levels of impairment and default rates, lower revenues and higher costs. A summary of the performance for each main geographical area is as follows:

– In the UK, the economy stayed flat in 2012, and negative growth in the fourth quarter has led to expectations of another difficult year in 2013. The potential for persistent unemployment, higher interest rates and rising inflation may increase the pressure on disposable incomes and affect an individual's ability to service debt with the potential to adversely impact performance in the Group's retail sector;
– Although US economic performance in 2012 was largely positive, with growth slightly above 2%, the US economy grew by only 0.1% in the fourth quarter of 2012. Moreover, the unemployment rate remained historically high and the risk of a failure of government leaders to reach a more lasting fiscal agreement remains, both of which increase uncertainty and contribute to a lack of business, consumer and investor confidence and thus adversely affect Barclays US business operations;
– The Eurozone saw negative growth during 2012 as it was impacted by the ongoing sovereign debt crisis. Credit conditions have remained weak and a depressed housing sector, high unemployment (especially acute amongst the under-30 year old population), contracting GDP and high government deficits may in the near term continue to adversely affect Barclays business operations in this region; and
– While South Africa experienced moderate economic growth in 2012, the housing sector showed some weakness towards the end of the year leading to uncertainty in the performance of the Absa business in the near term.

For further information on specific risks to our business relating to a potential economic downturn and the continuing Eurozone crisis, see below under credit risk.

Credit risk

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

The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with its clients. Other sources of credit risk arise from trading activities, including: debt securities; settlement balances with market counterparties; available for sale investments; and reverse repurchase agreements. It can also arise when an entity's credit rating is downgraded, leading to a fall in the value of Barclays investment. In addition, the Group may incur significant unrealised gains or losses due solely to changes in the Group's credit spreads or those of third parties, as these changes may affect the fair value of the Group's derivative instruments and the debt securities that the Group holds or issues.

Risks

An economic downturn

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

i) Extent and sustainability of economic recovery, including impact of austerity measures on the European economies

The threat of weaker economies in a number of countries in which the Group operates could lead to higher levels of unemployment, rising inflation, potentially higher interest rates and falling property prices. Any deterioration in the global economic conditions could have an adverse impact on the credit quality of the Group's customers and counterparties and could lead to a reduction in recoverability and value of the Group's assets resulting in a requirement to increase the Group's level of impairment allowance.

Growth rates in the UK, US, Europe and South Africa continue to have implications for our portfolios, particularly in Europe where growth forecasts remain weak. Rising unemployment and higher interest rates would reduce debt service ability in the retail sector with a knock on effect on corporate credit. The implementation of austerity measures to address high levels of public debt has negatively impacted economic growth and led to rising unemployment in some European countries. The monetary, interest rate and other policies of central banks and regulatory authorities may also have a significant adverse effect on a number of countries in which the Group operates. The Group's profitability is subject to further uncertainty from the growth prospects for the Chinese economy and the effect that this may have on the recovery prospects of the global economy.

ii) Increase in unemployment due to weaker economies in a number of countries in which the Group operates

During 2012 the unemployment rate in the Eurozone increased to 11.7% (December 2011: 10.7%) and remains particularly high in Spain at 26.1% (December 2011: 23.2%), although rates have declined in the US to 7.8% (December 2011: 8.5%) and the UK to 7.8% (December 2011: 8.3%) as businesses created jobs despite weak economies.

As customers' ability to service their debt is particularly sensitive to their employment status, any increase in unemployment rates could lead to an increase in delinquency and default rates, particularly in credit cards and unsecured loan portfolios, which may, in turn, lead to a requirement to increase the Group's impairment allowances in the retail sector. Any increase in impairment or higher charge off to recovery and write offs could have a material adverse effect on the Group's results, financial condition and capital position.

iii) Impact of rising inflation and potential interest rate rises on consumer debt affordability and corporate profitability

Rising inflation resulting from central bank monetary policies or other factors, coupled with the potential for rising interest rates in response, could have significant adverse effects on both economic growth prospects and the ability of consumers and the corporate sector to service existing debt levels. Consumer debt affordability is sensitive to interest rates and so any rise, or series of increases, may lead to a significant rise in the Group's impairment charges, particularly in unsecured products, such as credit cards and personal loans, and adversely impact the Group's performance in a similar way to higher employment levels described above.

iv) Possibility of further falls in residential property prices in the UK, South Africa and Western Europe

With a £115bn UK home loan portfolio (50% of the Group's total loans and advances to the retail sector), Barclays has a large exposure to adverse developments in the UK property sector. The credit quality of this portfolio, however, remains good with 76% of loans having a Loan-to-Value (LTV) of equal to or less than 75%. While arrears have remained steady and impairment modest in this property book, the housing sector remains weak, despite continuing low interest rates, This weakness may contribute to further impairment in the near term resulting from a deterioration in house prices due to reduced affordability as a result of, for example, higher interest rates. Specifically, the UK Interest Only portfolio of £53bn remains more susceptible to market forces as these loans mature and customers are required to repay the entire principal outstanding.

The UK Commercial Real Estate sector also remains at risk from deterioration in the housing sector which may affect customer confidence levels causing further adverse movements in real estate. This may result in higher levels of default rates in the corporate sector leading to higher impairment charges and write offs by the Group.

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

If these trends in Spain and Portugal continue or worsen and/or if these developments occur in other European countries such as Italy in which we have particular exposure to residential mortgages outside the UK, we may incur significant impairment charges in the future, which may materially adversely affect the Group's results of operations and financial condition.

Throughout 2012 the South African housing sector has been depressed reflecting a weak economy and uncertain outlook. There is concern that unsecured personal debt levels are becoming very high. If the economic environment worsens and becomes subject to further stress this could adversely affect the Group's performance in the home loan, unsecured loan, auto and credit card portfolios. In Absa Business Markets, the corporate property book remains sensitive to property prices, with reductions potentially leading to increased impairment charges.

v) US 'Fiscal Cliff' and Debt Ceiling Negotiations

Following the temporary agreement reached at the turn of 2012/13 concerning the expiry of tax cuts in the US federal budget as part of the 'Fiscal Cliff' legislative negotiations, considerable uncertainty remains with regards to a longer term agreement, in particular with respect to potential adjustments to US federal government spending, for which the Fiscal Cliff legislative negotiations are ongoing. Failure to reach a more lasting agreement may lead to a new recession in the US, which may have a significant adverse effect on the global economy and lead to negative pressures on the Group's profitability. Such a failure could also negatively impact upon market confidence, potentially leading to a reduction in investor appetite and liquidity in the US bond and loan markets, which would also impact upon the Group's profitability.

Risk review
Risk factors

The Eurozone crisis

The Group's performance may be materially adversely affected by the actual or perceived increase in the risk of default on the sovereign debt of certain European countries, the stresses currently being exerted on the financial system within the Eurozone, and the risk that one or more countries may exit the euro.

i) Impact of potentially deteriorating sovereign credit quality, particularly debt servicing and refinancing capability

Concerns in the market about credit risk (including that of sovereign states) and the Eurozone crisis remain high. The large sovereign debts and/or fiscal deficits of a number of European countries and the sustainability of austerity programmes they have introduced have raised concerns regarding the financial condition of some sovereign states as well as financial institutions, insurers and other corporates that are: i) located in these countries; ii) have direct or indirect exposure to these countries (both to sovereign and private sector debt) and/or iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries.

The default, or a further decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates, its businesses and the financial condition and prospects of the Group and that of its counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict.

For further information see Eurozone Exposure disclosures on pages 47 to 59.

ii) Potential exit of one or more countries from the Euro as a result of the European debt crisis

An exit of one or more countries from the Eurozone may adversely impact the Group's profitability in a number of ways. Risks associated with a potential partial break-up of the Euro area include:

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

Although the Group reduced the aggregate net funding mismatch in local balance sheets during 2012 from £12.1bn to a £1.9bn surplus in Spain, from £6.9bn to £3.3bn in Portugal and from £12.0bn to £9.6bn in Italy, there can be no assurance that the steps taken by the Group to actively match local external assets with local external liabilities will be fully successful.

Furthermore the departure from and/or the abandonment of the Euro by one or more Eurozone countries could lead to significant negative effects on both existing contractual relations and the fulfilment of obligations by the Group and/or its customers, which would have a negative impact on the activity, operating results, capital position and financial condition of the Group. An exit by a country from the euro may also adversely affect the economic performance of that country, impacting areas such as interest and unemployment rates, which in turn may adversely affect our retail and wholesale counterparties' (including a country's government or its agencies) solvency and their ability to service their debts. This may lead to additional impairment or a reduction in value of Barclays credit assets in that country, which would adversely impact the Group's profitability.

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

However, the Group has performed, and continues to perform, stress tests to model the event of a break-up of the Eurozone area. Contingency planning has also been undertaken based on a series of potential scenarios that might arise from an escalation in the crisis. Multiple tests have been run to establish the impact on customers, systems, processes and staff in the event of the most plausible scenarios. Where issues have been identified, appropriate remedial actions have either been completed or are underway.

For further information see Eurozone Exposure disclosures on pages 47 to 59.

Specific sectors/geographies

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

i) Possible deterioration in Credit Market Exposures

The Investment Bank holds certain exposures to credit markets that became illiquid during 2007. These exposures primarily relate to commercial real estate and leveraged finance loans. The Group continues to actively manage down these exposures, but remains at risk from further deterioration to the remaining exposures, resulting in further impairment. During 2012, credit market exposures decreased by £5.9bn to £9.3bn, mainly reflecting net sales and pay-downs and other movements.

For further information see Barclays Credit Market Exposure Section (page 46).

ii) Potential liquidity shortages increasing counterparty risks

The Group's ability to enter into its normal funding arrangements could be materially affected by the actions and commercial soundness of other financial institutions. The Group has exposure to many different industries and counterparties and should funding capacity in either the wholesale markets or central bank operations change significantly liquidity shortages could result, which may lead to increased counterparty risk with other financial institutions. This could also have an impact on refinancing risks in the corporate and retail sectors. While the Group continues to actively manage this risk, including through its extensive systems of Mandate and Scale limits, the performance of the Group remains at risk from a material liquidity shortage.

iii) Large single name losses

In the ordinary course of our loan business, we have large individual exposures to individual single name counterparties. We are accordingly exposed to the credit risk of such counterparties in the event of their default of their obligations to us. If such defaults occur, they may have a significant impact on the impairment charge particularly in Investment Bank and the larger business book in Corporate Banking. In addition, where such counterparty risk has been mitigated by taking collateral, our credit risk may remain high if the collateral we hold cannot be realised or has to be liquidated at prices which are insufficient to recover the full amount of our loan or derivative exposure.

Risk review
Risk factors

Market risk

Barclays is at risk from its earnings or capital being reduced due to:

- Traded market risk, where Barclays supports customer activity primarily via the Investment Bank and is the risk of the Group being impacted by changes in the level or volatility of positions in its trading books. This includes changes in interest rates, inflation rates, credit spreads, property prices, commodity prices, equity and bond prices and foreign exchange levels;
- Non-traded market risk, to support customer products primarily in the retail bank and is the risk of the Group being unable to hedge its banking book balance sheet at prevailing market levels; and
- Pension risk, where the investment profile is reviewed versus the defined benefit scheme and is the risk of the Group's defined benefit obligations increasing or the value of the assets backing these defined benefit obligations decreasing due to changes in both the level and volatility of prices.

Risks

Specific areas and scenarios where market risk could lead to significantly lower revenues and adversely affect our results of operations in future years include:

i) Reduced client activity and decreased market liquidity

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

ii) Uncertain interest rate environment

Interest rate volatility can impact Barclays net interest margin, which is the interest rate spread realised between lending and borrowing costs. The potential for future volatility and margin changes remains, and it is difficult to predict with any accuracy changes in absolute interest rate levels, yield curves and spreads. Most developed economies are currently operating under historically low rates. Consequently the net interest margin earned by Barclays is reduced. This margin would likely compress further were central bank rates to be cut. Rate changes, to the extent they are not neutralised by hedging programmes, may have a material adverse effect on the Group's results of operations, financial condition and prospects.

iii) Pension fund risk

Adverse movements between pension assets and liabilities for defined benefit pension schemes could contribute to a pension deficit. The key sensitivities are the discount rate and long term inflation assumptions made in determining the defined benefit obligation. The discount rate is derived from yields of corporate bonds with AA-ratings and consequently includes exposure both to risk-free yields and credit spreads. Barclays defined benefit pension net position has been adversely affected, and could be adversely affected again, by decreases in discount rate or an increase in long term inflation assumptions.

Funding risk

Funding Risk is the risk that the Group is unable to achieve its business plans due to:

- **Capital risk:** the risk that the Group is unable to maintain appropriate capital ratios which could lead to: an inability to support business activity; a failure to meet regulatory requirements; and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding;
- **Liquidity risk:** the risk that the Group is unable to meet its obligations as they fall due resulting in: an inability to support normal business activity, a failure to meet liquidity regulatory requirements; and/or changes to credit ratings; and
- **Structural risk**: this risk predominantly arises from the impact on the Group's balance sheet of changes in primarily interest rates on income or foreign exchange rates on capital ratios and is, therefore, difficult to predict with any accuracy and may have a material adverse effect on the Group's results of operations, financial condition and prospects.

Risks

i) Increasing capital requirements

There are a number of regulatory developments that impact capital requirements. Most significantly Basel 3 as adopted into EU law through the fourth Capital Requirements Directive (CRD IV) and Capital Requirements Regulation which are on-going through the EU legislative process. Additional capital requirements may arise from other proposals including the recommendations of the U.K. Independent Commission on Banking, including with respect to "ring fencing" separately the trading and non-trading businesses of banks : The Financial Services (Banking Reform) Bill; EU Review; and, s.165 of the Dodd-Frank Act".

Increased capital requirements and changes to what is defined to constitute capital may constrain the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. During periods of market dislocation, increasing the Group's capital resources in order to meet targets may prove more difficult or costly.

ii) Maintaining capital strength

A material adverse deterioration in the Group's financial performance can affect the Group's capacity to support further capital deployment. The Capital Plan is continually monitored against the internal target capital ratios to ensure the Plan remains appropriate. The capital management process also includes an internal and regulatory stress testing process which informs the Group Capital Plan. Further detail on the Group's regulatory capital resources is included on pages 66 to 70.

iii) Changes in funding availability and costs

Market liquidity and the availability and cost of customer deposits and wholesale funding impacts the Group's ability to meet its obligations as they fall due, support normal business activity and meet liquidity regulatory requirements. Large unexpected outflows, for example from customer withdrawals, ratings downgrades or loan drawdowns, could also result in forced reduction in the balance sheet, inability to fulfil lending obligations and a failure to meet liquidity regulatory requirements. During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

The liquidity profile of the Group is monitored constantly and is supported by a range of early warning indicators to ensure the profile remains appropriate and sufficient liquid resources are held to protect against unexpected outflows. Further details are provided in the Funding Risk – Liquidity section on pages 71 to 95.

Risk review
Risk factors

iv) Downgrade in credit ratings

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Rating agencies regularly evaluate the Group and certain of its subsidiaries, as well as their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of the Group or of the relevant entity, as well as conditions affecting the financial services industry generally and there can be no assurance that the rating agencies will maintain the Group's or the relevant entity's current ratings or outlook, especially in light of the difficulties in the financial services industry and the financial markets.

During 2012, Barclays Bank PLC rating was downgraded by Moody's, from Aa3/P-1/C to A2/P-1/C-, as a result of the agency's rating repositioning of banks and securities firms with global capital market operations, and by DBRS, from AA High/ R-1 High to AA/R-1High, as the result of the resignation of senior management during the summer.

Credit rating downgrades could result in contractual outflows to meet collateral requirements on existing contracts and potential loss of unsecured funding. The aggregate contractual outflows to meet our collateral requirements on existing contracts following a one and two notch long term and associated short term simultaneous downgrades across all credit rating agencies, would be £13bn and £17bn respectively. See page 87 in the Funding risk – Liquidity section for further information on Barclays credit rating and potential outflows relating to credit downgrades.

v) Local balance sheet management and redenomination risk

The introduction of capital controls or new currencies by countries (for example in the Eurozone) to mitigate current stresses could have an adverse impact on the performance of local balance sheets of certain Group companies depending on the asset quality, types of collateral and mix of liabilities. Local assets and liability positions are carefully monitored by local asset and liability committees with oversight by Group Treasury. Further detail on the Group's exposures to Eurozone countries is included on pages 47 to 59.

Operational risk

Operational Risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Group's business activities and include those relating to the conduct of employees and the Bank as a whole and consider the reputational impact of risks should they occur.

Risks

Legal and regulatory related risks

i) Legal risk

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates and so is exposed to many forms of legal risk, including that: (i) business may not be conducted in accordance with applicable laws in the relevant jurisdictions around the world and financial and other penalties may result; (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way adverse to the Group; (iii) intellectual property may not be adequately protected; and (iv) liability for damages may be incurred to third parties harmed by the conduct of the Group's business. The Group also faces regulatory and other investigations in various jurisdictions, including in the US.

Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects that environment to continue – see Regulatory Risk for further details.

Key legal proceedings to which the Group was exposed during 2012 and continues to be exposed include those relating to:

- Lehman Brothers;
- Certain series of preference shares issued in the form of American Depositary Shares;
- Residential mortgage backed Securities;
- Devonshire Trust; and
- Libor Civil Actions (see also competition and regulatory matters discussed below).

For more detailed information on each of these proceedings, see Legal Proceedings Note 28. The outcome of each of these legal proceedings is difficult to predict. However, it is likely that the Group will incur significant expense in connection with these matters and one or more of them could expose the Group to any of the following: substantial monetary damages; other penalties and injunctive relief; potential regulatory restrictions on the Group's business; and/or negative effect on the Group's reputation.

Key competition and regulatory matters affecting Barclays during 2012 and which are ongoing are described in Note 29. A description of the associated risks for each is set out below:

- Interchange investigations: The key risks arising from the investigations into Visa and MasterCard credit and debit interchange rates comprise the potential for fines imposed by competition authorities, follow on litigation and proposals for new legislation. It is not currently possible to predict the likelihood or impact of these risks, however Barclays is actively managing these competition investigations;
- London Interbank Offered Rates (LIBOR) investigations: The risks associated with investigations by various authorities into submissions made by Barclays and other panel members to the bodies that set various interbank offered rates include: the potential for further financial penalties imposed by governmental authorities in addition to those assessed in 2012; the pending and potential additional civil litigation; damage to Barclays reputation; the potential for criminal prosecution should Barclays violate the terms of its non-prosecution agreement with the Department of Justice, Criminal Division Fraud Section; and potential further regulatory enforcement action should Barclays fail to comply with the Cease and Desist Order entered against it by the Commodity Futures Trading Commission;
- Interest Rate Hedging Products: The provision of £850m that Barclays has made in 2012 for future redress to customers categorised as non-sophisticated has been based on the best currently available information (see Note 26 for further details), however there is a risk that the provision may need to be increased to the extent that experience is not in line with management estimates. Barclays is managing this risk by keeping the provision level under ongoing review. In addition, customers could initiate civil litigation against Barclays in connection with the sale of interest rate hedging products;
- Federal Energy Regulatory Commission (FERC) Investigation: Barclays may be required to pay a civil penalty and profit disgorgement plus interest, and could incur damage to its reputation, if it is found to have violated the FERC's Anti-Manipulation Rule in connection with Barclays power trading in the western US with respect to the period from late 2006 to 2008, although Barclays intends to defend this matter vigorously; and
- Other Regulatory investigations: These relate to investigations by the FSA and Serious Fraud Office in connection with certain commercial agreements between Barclays and Qatari interests and whether these may have related to Barclays capital raisings in June and November 2008 and an investigation by the US Department of Justice and US Securities and Exchange Commission into whether the Group's relationships with third parties who assist Barclays to win or retain business are compliant with the US Foreign Corrupt Practices Act. The risk of these investigations is that one or more of the relevant authorities will conclude that Barclays and/or one or more of its current or former senior employees has been involved in some form of wrongdoing. It is not possible to foresee the outcome or impact of such findings other than that a fine or a number of fines would be possible. Barclays is cooperating fully with the investigations.

Risk review
Risk factors

ii) Regulatory risk

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

Regulatory change

The banking industry continues to be subject to unprecedented levels of regulatory change and scrutiny in many of the countries in which the Group operates. This has led to a more intensive approach to supervision and oversight, increased expectations and enhanced requirements, including capital and liquidity requirements (for example relating to Basel 3 and CRD IV), resolvability and the clearing of over-the-counter derivatives. As a result, regulatory risk will continue to focus senior management attention and consume significant levels of business resource. Furthermore, uncertainty and the extent of international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect our ability to engage in effective business, capital and risk management planning.

Structural reform

A number of regulators are currently proposing or considering legislation that could have a significant impact on the structure of the financial services industry. Key developments or potential developments of particular relevance to Barclays are:

- The UK Financial Services (Banking Reform) Bill;
- The EU High Level Expert Group Review (the Liikanen Review); and
- Federal Reserve proposals to implement section165 of the Dodd-Frank Act for foreign banks.

See Regulatory Developments in the section on Supervision and Regulation (page 101) for further information on these proposed reforms.

These regulations could result in changes to the structure of Barclays, and an increase in the amount of loss-absorbing capital issued by Barclays, which may have an adverse impact on profitability, return on equity and/or financial condition. It is not yet possible to predict the detail of secondary legislation or regulatory rulemaking or the ultimate consequences to the Group.

Conduct related issues

There are also a number of areas where Barclays conduct has not met the expectations of regulators and other stakeholders and where the Group has sustained financial and reputational damage in 2012, and where the consequences are likely to endure into 2013 and beyond.

These include participation in benchmark rates and LIBOR and interest rate hedging products, which are discussed in the Legal Risk section above and Payment Protection Insurance (PPI). Provisions totalling £850m have been raised in respect of interest rate hedging products in 2012, and provisions of £2.6bn have been raised against PPI in 2011-2012. To the extent that experience is not in line with management estimates, additional provisions may be required and further reputational damage may be incurred. Note 26 details key provision assumptions and sensitivities for these provisions.

Furthermore, the Group is from time to time subject to regulatory investigations. The risk of these investigations to Barclays is that, a number of or all of the authorities will conclude that Barclays has been involved in some form of wrongdoing. It is not possible to foresee the outcome or impact of such findings other than that fines or other forms of regulatory censure would be possible. This includes the investigation by the United States Federal Energy Regulatory Commission (FERC) into the Group's conduct (see Legal Risk above).

There is a risk that there may be other conduct issues, including in business already written, that Barclays is not presently aware of.

Further details on PPI and interest rate hedging products, including a description of management judgements and estimates and sensitivity analysis on those estimates where available are provided in Note 26 to the financial statements. Further details on the FERC investigations are provided in Note 29 to the financial statements.

In addition to the risks highlighted under Legal risk, Barclays participates in the setting of number of interest rate benchmarks. The setting of benchmarks is subject to increased scrutiny and additional regulation in a number of jurisdictions, with enhanced sanctions – including potential criminal sanctions – and attendant damage to Barclays reputation for violations. Barclays may also be required to contribute to benchmarks due to its presence in certain markets. The UK FSA is considering the use of such powers

Further details on the LIBOR investigations are provided in Note 28 and Note 29 to the financial statements. For further information on developments further to the Wheatley Review recommendations related to the setting of LIBOR, see Supervision and Regulation.

iii) Implementation of Basel 3

The new capital requirements regulation and capital requirements directive that implement Basel 3 within the EU (collectively known as CRD IV) include significant developments in the regulatory capital regime including: increased minimum capital ratios; changes to the definition of capital and the calculation of risk weighted assets; and the introduction of new measures relating to leverage, liquidity and funding. The requirements are under consideration and are expected to be finalised during 2013; however the implementation date is uncertain.

The impact of the CRD IV rules, including with respect to the calculation of capital and risk weighted assets, and the timing of implementation including the application of transitional relief, have not been finalised and remain subject to change by European legislators. The FSA may also alter its stated approach to the adoption of CRD IV in the United Kingdom. For example, the scope of application of the volatility charge for credit value adjustments (CVA) may be different from that expected and restrictions may be applied on the maturity of hedges over to insignificant financial holdings, with the result that individually and/or in aggregate such changes may materially negatively affect Barclays CRD IV capital, leverage, liquidity and funding ratios.

iv) Recovery and resolution plans

The strong regulatory focus on resolvability has continued in 2012, from both UK and international regulators. The Group continues to work with the authorities on recovery of and resolution plans (RRP) and the detailed practicalities of the resolution process. This includes the provision of information that would be required in the event of a resolution, in order to enhance Barclays resolvability. The Group made its first formal RRP submissions to the UK and US regulators in mid-2012 and has continued to work with the authorities to identify and address any impediments to resolvability.

Should the authorities decide that Barclays is not resolvable they have the ability to demand that the Group is broken into sections that are deemed resolvable. The impact of such structural changes could impact capital, liquidity and leverage ratios, due to reduced benefits of diversification, as well as the overall profitability, via duplicated infrastructure costs, lost cross-rate revenues and additional funding costs.

Other operational risks

v) Reputation risk

Reputation risk, meaning the risk of damage to the Barclays brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical, is inherent in our business. Reputational damage can result from the actual or perceived manner in which we conduct our business activities, from our financial performance, or from actual or perceived practices in the banking and financial industry. Such reputational damage reduces – directly or indirectly – the attractiveness of Barclays to stakeholders and may lead to negative publicity, loss of revenue, litigation, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting talent. Sustained reputational damage could have a materially negative impact on our licence to operate and destroy shareholder value.

vi) Infrastructure resilience, Technology and CyberSecurity

Events across the industry during 2012 have reinforced the importance of infrastructure resilience to the banking infrastructure to allow customers to access their accounts and make payments in a timely fashion. The Group recognises that this is an area of risk that continues to change rapidly and so requires continued focus. It has invested significant resources in building defences to counter these threats for many years and will continue to do so in the future.

Any disruption in a customer's access to their account information or delays in making payments will have a significant impact on the Group's reputation and may also lead to potentially large costs to both rectify the issue and reimburse losses incurred by customers. However, given that it is not possible to predict the level or impact of such an event, should it occur, it is not possible to accurately quantify either the reputational damage or associated costs to the Group.

Furthermore, Barclays recognises the growing threat of attacks to its systems, customers and Group's information held on customers and transactions processed through these systems from individuals or groups via cyberspace (the interdependent network of information technology infrastructures, and includes technology 'tools' such as the internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries[a]). The implementation of measures to manage the risk involves continued investment and use of internal resources.

However, given the increasing sophistication and scope of potential attacks via cyberspace, it is possible that in the future such attacks may lead to significant breaches leading to associated costs and reputational damage although these cannot be quantified to any degree of accuracy at this time due to the uncertain nature and impact of any such attack.

Note
a As defined by the World Economic Forum's Partnership for Cyber Resilience, of which Barclays is a member.

Risk review
Risk factors

vii) Transform Programme

In February 2013, we presented the results of our Strategic Review and the elements of our Transform Programme which is the plan by which Barclays will become the 'Go-To' bank for our stakeholders. As part of the Transform Programme, we will seek to, among other initiatives, restructure Barclays European retail operations to focus on the mass affluent customer segment, manage risk weighted assets more efficiently through run-off of legacy assets in Europe and the Investment Bank, and reduce total costs significantly across the Group.

As a result of certain commitments made in the review, Barclays expects to incur a restructuring charge of approximately £500m in the first quarter of 2013 and costs associated with implementing the strategic plan of approximately £1bn in 2013, £1bn in 2014 and £0.7bn in 2015.

The development and implementation of our Strategy Review requires difficult, subjective and complex judgements, including forecasts of economic conditions in various parts of the world. We may fail to correctly identify the trends we seek to exploit and the relevant factors in making decisions as to capital deployment and cost reduction. Our ability to execute our strategy may also be limited by our operational capacity and the increasing complexity of the regulatory environment in which we operate. Moreover, there is a risk that the restructuring costs associated with implementing the Transform Programme may be higher than our current expectations. Failure to successfully implement the Transform Programme could have a material adverse effect on the expected benefits of the Transform Programme. In addition, factors beyond our control, including but not limited to the market and economic conditions such as the risk of an economic downturn and other challenges discussed in detail above, could limit or delay our ability to achieve all of the expected benefits of the Transform Programme.

viii) Taxation risk

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

There is potential risk that the Group could suffer losses due to additional tax charges, other financial costs or reputational damage due to: failure to comply with or correctly assess the application of, relevant tax law; failure to deal with tax authorities in a timely, transparent and effective manner; incorrect calculation of tax estimates for reported and forecast tax numbers; or provision of incorrect tax advice.

For further information see the Financial Review (pages 106 to 127) and Tax (Note 10).

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk management overview

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The granting of credit is one of the Group's major sources of income and, as the most significant risk, the Group dedicates considerable resources to its control.

Overview

The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans.

Credit risk management objectives are to:

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

Organisation and structure

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans. The credit risk management teams in each business are accountable to the business risk directors in those businesses who, in turn, report to the heads of their businesses and also to the Chief Risk Officer.

The role of the Group Risk function is to provide Group wide direction, oversight and challenge of credit risk-taking. Group Risk sets the Credit Risk Control Framework, which provides a structure within which credit risk is managed together with supporting Group Credit Risk Policies. Group Risk also provides technical support, review and validation of credit risk measurement models across the Group.

Reporting

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

– measuring exposures and concentrations;
– monitoring weaknesses in portfolios;
– identifying potential problem loans and credit risk loans (collectively known as potential credit risk loans or PCRLs);
– raising allowances for impaired loans; and
– writing off assets when the whole or part of a debt is considered irrecoverable.

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although Barclays can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. Barclays risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. One area of particular review is concentration risk. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. As a result, Barclays constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry (see above).

Diversification is achieved through setting maximum exposure guidelines to individual counterparties. Excesses are reported to the Financial Risk Committee and the Board Risk Committee. Mandate & Scale limits are used to limit the stock of current exposures in a loan portfolio and the flow of new exposures into a loan portfolio. Limits are typically based on the nature of the lending and the amount of the portfolio meeting certain standards of underwriting criteria.

Monitoring weaknesses in portfolios

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

Wholesale accounts that are deemed to contain heightened levels of risk are recorded on graded early warning lists or watchlists comprising three

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

categories graded in line with the perceived severity of the risk attached to the lending, and its probability of default. These are updated monthly and circulated to the relevant risk control points. Once an account has been placed on watchlist (WL) or early warning list (EWL), the exposure is carefully monitored and, where appropriate, exposure reductions are affected. Should an account become impaired, it will normally, but not necessarily, have passed through each of the three categories, which reflect the need for increasing caution and control. Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. While all obligors, regardless of financial health, are subject to a full review of all facilities on, at least, an annual basis, more frequent interim reviews may be undertaken should circumstances dictate. Specialist recovery functions deal with clients in default, collection or insolvency. Their mandate is to maximise shareholder value via the orderly and timely recovery of impaired debts.

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

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

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

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

Allowances for impairment and other credit provisions

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

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

For collective assessment, the principal trigger point for impairment is the missing of a contractual payment which is the policy consistently adopted across all credit cards, unsecured loans, mortgages and most other retail lending. The calculation methodology relies on the historical experience of pools of similar assets; hence the impairment allowance is collective. The impairment calculation is typically based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default is derived from statistical probabilities based on historical experience. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio. This method applies mainly to the Group's retail portfolios and is consistent with Barclays policy of raising an allowance as soon as impairment is identified. Unidentified impairment is also referred to as collective impairment. This is to reflect the impairment that is collectively held against a pool of assets where a loss event has occurred, but has not yet been captured. Hence, it is referred to as collective impairment against the pool.

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

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

Impairment allowance = Total outstandings x Probability of Default (PDpit) x Loss Given Default (LGD)

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

Unidentified impairment allowances are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported. The incurred but not yet reported calculation is based on the asset's probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence

period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The emergence periods vary across businesses and are based on actual experience and are reviewed on an annual basis. The current policy also incorporates a High Risk segment which supplements the unidentified impairment calculation. High Risk segments are those which can be demonstrated to experience higher levels of loss when compared to the performing segment. This segmentation allows for earlier identification of potential loss issues in a portfolio. Unidentified impairment is also referred to as collective impairment. This is to reflect the impairment that is collectively held against a pool of assets where a loss event has occurred, but has not yet been captured. Hence, it is referred to as collective impairment against the pool.

Returning assets to a performing status

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

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

1. All arrears (both capital and interest) have been cleared and payments have returned to original contractual payments;
2. For revolving products, a re-age event has occurred, when the customer is returned to an up to date status without having cleared the requisite level of arrears;
3. For amortising products (excluding residential mortgages), a small arrears capitalisation event has occurred, where the customer is returned to an up to date status without having cleared the requisite level of arrears;
4. For amortising products, which are performing on a programme of Forbearance and meet the following criteria may be returned to the performing book classified as High Riska:
   (a) No interest rate concessions must have been granted.
   (b) Restructure must remain within original product parameters (original term + extension).
   (c) 12 consecutive payments at the revised contractual payment amount must have been received post the Restructure event.

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

Writing off of assets

'Write-off' refers to the point where it is determined that the asset is irrecoverable, or it is no longer considered economically viable to try and recover the asset or it is deemed immaterial or full and final settlement is reached and a shortfall remains. In the event of write-off, the customer balance is removed from the balance sheet and the impairment reserve held against the asset is released.

The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery. In any event, the position of impaired loans is reviewed at least quarterly to ensure that irrecoverable advances are being written off in a prompt and orderly manner and in compliance with any local regulations.

For Retail portfolios the timings of the write-off points are established based on the type of loan. For unsecured assets, write-off must occur within 12 months after charge-off if no payment has been received for 12 months. For secured loans, the shortfall after the receipt of the proceeds from the disposal of the collateral is written off within 3 months of that date if no repayment schedule has been agreed with the borrower. Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement. In 2012, total write-offs of impaired financial assets decreased 20% to £4,119m (2011: £5,165m).

Basis of preparation

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

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

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

The Group mitigates the credit risk to which it is exposed through netting and set-off, collateral and risk transfer. Further detail on the Group's policies to each of these forms of credit enhancement are presented on pages 26 to 29.

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Overview

As at 31 December 2012, the Group's net exposure to credit risk after taking into account netting and set-off, collateral and risk transfer reduced 4% to £769.5bn (2011: £801.1bn), reflecting a reduction in maximum exposure of 6% and a reduction in the level of mitigation held by 7%. Overall, the extent to which the Group holds mitigation on its assets fell marginally to 55% (2011: 57%).

Of the remaining exposure left unmitigated, a significant portion relates to cash held at central banks, available for sale debt securities issued by governments, cash collateral and settlement balances, all of which are considered lower risk. Trading portfolio liability positions, which to a significant extent economically hedge trading portfolio assets but which are not held specifically for risk management purposes, are excluded from the analysis above. The credit quality of counterparties to derivative, available for sale and wholesale loan assets are predominantly investment grade. Further analysis on the credit quality of assets is presented on pages 38 to 42.

Where collateral has been obtained in the event of default, Barclays does not, as a rule, use such assets for its own operations and they are usually sold on a timely basis. The carrying value of assets held by the Group and the Bank as at 31 December 2012 as a result of the enforcement of collateral was £868m (2011: £470m) and £485m (2011: £115m) respectively.

Maximum exposure and effects of collateral and other credit enhancements

The Group As at 31 December 2012	Maximum Exposure £m	Netting and set-off £m	Collateral £m	Risk transfer £m	Net Exposure £m
On-balance sheet:					
Cash and balances at central banks	86,175	-	-	-	86,175
Items in the course of collection from other banks	1,456	-	-	-	1,456
Trading portfolio assets:					
Debt securities	114,759	-	-	-	114,759
Traded loans	2,404	-	-	-	2,404
Total trading portfolio assets	117,163	-	-	-	117,163
Financial assets designated at fair value:					
Loans and advances	21,996	-	(7,500)	(111)	14,385
Debt securities	6,118	-	(23)	-	6,095
Other financial assets	7,727	-	(5,629)	-	2,098
Total financial assets designated at fair value	35,841	-	(13,152)	(111)	22,578
Derivative financial instruments	469,146	(387,672)	(53,183)	(8,132)	20,159
Loans and advances to banks	40,898	(1,012)	(5,071)	(136)	34,679
Loans and advances to customers:					
Home loans	174,988	-	(172,722)	(53)	2,213
Credit cards, unsecured and other retail lending	66,414	(10)	(18,612)	(2,321)	45,471
Corporate loans	184,327	(10,243)	(50,404)	(8,489)	115,191
Total loans and advances to customers	425,729	(10,253)	(241,738)	(10,863)	162,875
Reverse repurchase agreements and other similar secured lending	176,956	-	(175,348)	-	1,608
Available for sale debt securities	74,677	-	(234)	(32)	74,411
Other assets	2,001	-	-	-	2,001
Total on-balance sheet	1,430,042	(398,937)	(488,726)	(19,274)	523,105
Off-balance sheet:					
Guarantees and letters of credit pledged as collateral security	15,855	-	(2,278)	(379)	13,198
Acceptances, endorsements and other contingent liabilities	6,002	-	(61)	(176)	5,765
Documentary credits and other short term trade related transactions	1,027	-	(48)	(11)	968
Standby facilities, credit lines and other commitments	247,816	-	(17,973)	(3,396)	226,447
Total off-balance sheet	270,700	-	(20,360)	(3,962)	246,378
Total	1,700,742	(398,937)	(509,086)	(23,236)	769,483

Maximum exposure and effects of collateral and other credit enhancements					
The Bank	Maximum Exposure	Netting and set-off	Collateral	Risk transfer	Net Exposure
As at 31 December 2012	£m	£m	£m	£m	£m
On-balance sheet:					
Cash and balances at central banks	81,996	-	-	-	81,996
Items in the course of collection from other banks	1,076	-	-	-	1,076
Trading portfolio assets:					
Debt securities	64,827	-	-	-	64,827
Traded loans	2,393	-	-	-	2,393
Total trading portfolio assets	67,220	-	-	-	67,220
Financial assets designated at fair value:					
Loans and advances	21,065	-	(6,919)	(111)	14,035
Debt securities	56,500	(12,949)	-	(38,887)	4,664
Other financial assets	4,627	-	(3,508)	-	1,119
Total financial assets designated at fair value	82,192	(12,949)	(10,427)	(38,998)	19,818
Derivative financial instruments	476,129	(385,188)	(47,317)	(8,018)	35,606
Loans and advances to banks	51,175	(15,622)	-	(7)	35,546
Loans and advances to customers:					
Home loans	143,684	-	(140,390)	(6)	3,288
Credit cards, unsecured and other retail lending	31,513	-	(11,202)	(411)	19,900
Corporate loans	299,526	(10,026)	(38,438)	(44,378)	206,684
Total loans and advances to customers	474,723	(10,026)	(190,030)	(44,795)	229,872
Reverse repurchase agreements and other similar secured lending	174,284	-	(172,621)	-	1,663
Available for sale debt securities	61,554	-	-	(32)	61,522
Other assets	1,008	-	-	-	1,008
Total on-balance sheet	1,471,357	(423,785)	(420,395)	(91,850)	535,327
Off-balance sheet:					
Guarantees and letters of credit pledged as collateral security	15,730	-	(1,668)	(265)	13,797
Acceptances, endorsements and other contingent liabilities	5,436	-	(13)	(121)	5,302
Documentary credits and other short term trade related transactions	744	-	(38)	(1)	705
Standby facilities, credit lines and other commitments	189,096	-	(18,188)	(3,316)	167,592
Total off-balance sheet	211,006	-	(19,907)	(3,703)	187,396
Total	1,682,363	(423,785)	(440,302)	(95,553)	722,723

Risk review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements

The Group As at 31 December 2011	Maximum Exposure £m	Netting and set-off £m	Collateral £m	Risk transfer £m	Net Exposure £m
On-balance sheet:					
Cash and balances at central banks	106,894	-	-	-	106,894
Items in the course of collection from other banks	1,812	-	-	-	1,812
Trading portfolio assets:		-	-	-	
Debt securities	123,364	-	-	-	123,364
Traded loans	1,374	-	-	-	1,374
Total trading portfolio assets	124,738	-	-	-	124,738
Financial assets designated at fair value:					
Loans and advances	21,960	-	(7,887)	(76)	13,997
Debt securities	2,095	-	(22)	-	2,073
Other financial assets	7,574	-	(5,541)	-	2,033
Total financial assets designated at fair value	31,629	-	(13,450)	(76)	18,103
Derivative financial instruments	538,964	(440,592)	(57,294)	(7,544)	33,534
Loans and advances to banks	46,792	(1,886)	(7,999)	(171)	36,736
Loans and advances to customers:					
Home loans	171,272	-	(167,581)	(1,130)	2,561
Credit cards, unsecured and other retail lending	64,492	(11)	(16,159)	(2,564)	45,758
Corporate loans	196,170	(8,873)	(53,616)	(9,550)	124,131
Total loans and advances to customers	431,934	(8,884)	(237,356)	(13,244)	172,450
Reverse repurchase agreements and other similar secured lending	153,665	-	(150,337)	-	3,328
Available for sale debt securities	63,608	-	(219)	(3,532)	59,857
Other assets	2,620	-	-	-	2,620
Total on-balance sheet	1,502,656	(451,362)	(466,655)	(24,567)	560,072
Off-balance sheet:					
Securities lending arrangements	35,996	-	(35,996)	-	-
Guarantees and letters of credit pledged as collateral security[a]	14,181	-	(2,714)	(608)	10,859
Acceptances, endorsements and other contingent liabilities[a]	8,266	-	(23)	(256)	7,987
Documentary credits and other short term trade related transactions	1,358	-	(39)	(49)	1,270
Standby facilities, credit lines and other commitments	240,282	-	(15,522)	(3,829)	220,931
Total off-balance sheet	300,083	-	(54,294)	(4,742)	241,047
Total	1,802,739	(451,362)	(520,949)	(29,309)	801,119

Note
a 2011 amounts have been restated to include £1.1bn additional collateral and risk transfers that mitigate guarantees and letters of credit pledged as collateral security, and to include other contingent liabilities of £7.8bn, identified as being exposed to credit risk.

Maximum exposure and effects of collateral and other credit enhancements					
The Bank As at 31 December 2011	Maximum Exposure £m	Netting and set-off £m	Collateral £m	Risk transfer £m	Net Exposure £m
On-balance sheet:					
Cash and balances at central banks	103,087	-	-	-	103,087
Items in the course of collection from other banks	1,634	-	-	-	1,634
Trading portfolio assets:					
Debt securities	77,279	-	-	-	77,279
Traded loans	1,361	-	-	-	1,361
Total trading portfolio assets	78,640	-	-	-	78,640
Financial assets designated at fair value:					
Loans and advances	21,899	-	(7,254)	(1)	14,644
Debt securities	19,198	(14,823)	-	-	4,375
Other financial assets	3,419	-	(2,269)	-	1,150
Total financial assets designated at fair value	44,516	(14,823)	(9,523)	(1)	20,169
Derivative financial instruments	546,921	(437,635)	(52,291)	(7,383)	49,612
Loans and advances to banks	52,287	(14,404)	-	(33)	37,850
Loans and advances to customers:					
Home loans	133,516	-	(131,841)	(1,088)	587
Credit cards, unsecured and other retail lending	32,821	-	(8,499)	(2,191)	22,131
Corporate loans[a]	351,443	(7,867)	(36,605)	(54,543)	252,428
Total loans and advances to customers	517,780	(7,867)	(176,945)	(57,822)	275,146
Reverse repurchase agreements and other similar secured lending	161,436	-	(151,961)	-	9,475
Available for sale debt securities	47,805	-	-	(3,533)	44,272
Other assets	1,170	-	(16)	-	1,154
Total on-balance sheet	1,555,276	(474,729)	(390,736)	(68,772)	621,039
Off-balance sheet:					
Securities lending arrangements	35,996	-	(35,996)	-	-
Guarantees and letters of credit pledged as collateral security[b]	14,356	-	(1,497)	(306)	12,553
Acceptances, endorsements and other contingent liabilities[b]	6,582	-	(14)	(156)	6,412
Documentary credits and other short term trade related transactions	1,106	-	(12)	-	1,094
Standby facilities, credit lines and other commitments	190,736	-	(15,020)	(3,901)	171,815
Total off-balance sheet	248,776	-	(52,539)	(4,363)	191,874
Total	1,804,052	(474,729)	(443,275)	(73,135)	812,913

Netting and set-off

In many jurisdictions in which Barclays operates, credit risk exposures can be reduced by applying netting and set off. In exposure terms, this credit risk mitigation technique is used mainly in derivative and repo transactions with financial institutions.

For derivative transactions, Barclays will often seek to enter into standard master agreements with counterparties (e.g. ISDA). These master agreements allow for netting of credit risk exposure to a counterparty resulting from a derivative transaction against Barclays obligations to the counterparty in the event of default, to produce a lower net credit exposure. These agreements may also reduce settlement exposure (e.g. for foreign exchange transactions) by allowing for payments on the same day in the same currency to be set off against one another.

In the majority of its portfolios Barclays uses the Internal Model Method (IMM) to calculate counterparty credit risk exposures.

Notes

a Credit enhancements of £47.4bn previously reported as collateral have been reanalysed to better reflect their nature. £46.3bn has been analysed as risk transfer and £1.1bn has been excluded from this analysis.

b 2011 amounts have been restated to include £0.1bn additional collateral and risk transfers that mitigate guarantees and letters of credit pledged as collateral security, and to include other contingent liabilities of £6.1bn, identified as being exposed to credit risk.

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Collateral

The Group has the ability to call on collateral in the event of default of the borrower or other counterparty, comprising:

- Home loans: a fixed charge over residential property in the form of houses, flats and other dwellings;
- Wholesale lending: a fixed charge over commercial property and other physical assets, in various forms;
- Credit cards, unsecured and other retail lending: includes charges over motor vehicle and other physical assets; second lien charge over residential property, which is subordinate to first charge held either by the Group or by another party; and finance lease receivables, for which typically the Group retains legal title to the leased asset and has the right to repossess the asset on the default of the borrower;
- Derivatives: cash and non-cash collateral may be held against derivative trades with certain counterparties;
- Reverse repurchase agreements: collateral typically comprises highly liquid securities which have been legally transferred to Barclays subject to an agreement to return them for a fixed price; and
- Financial guarantees and similar off-balance sheet commitments: cash collateral may be held against these arrangements.

In exposure terms, the main portfolios that Barclays takes collateral for are home loans and reverse repurchase agreements with financial institutions.

Assets other than cash are subject to regular revaluation to ensure they continue to achieve appropriate mitigation of risk. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase (for example due to market moves impacting a derivative exposure).

The carrying value of non-cash collateral reflects the fair value of the physical assets limited to the carrying value of the asset where the exposure is over-collateralised. In certain cases where active markets or recent valuations of the assets are not available, estimates are used. For assets collateralised by residential or commercial property (and certain other physical assets), where it is not practicable to assess current market valuations of each underlying property, values reflect historical fair values updated for movements in appropriate external indices. For assets collateralised by traded financial instruments, values reflect mark to market or mark to model values of those assets, applying a haircut where appropriate.

The net realisable value from a distressed sale of collateral obtained by the Group upon default or insolvency of a counterparty will in some cases be lower than the carrying value recognised above. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of the Group, the borrower and the borrower's other creditors in accordance with the relevant insolvency regulations. For business customers, in some circumstances, where excess funds are available after repayment in full of the outstanding loan, they are offered to any other, lower ranked, secured lenders. Any additional funds are returned to the customer. Barclays does not, as a rule, occupy repossessed properties for its business use or use assets obtained in its operations.

When property is taken as collateral it is monitored to ensure that the current value is not less than its value at origination. Monitoring is undertaken at least once every three years for residential property, and annually for commercial property. More frequent monitoring is carried out where the property sector is subject to significant deterioration.

Deterioration is monitored principally by geography. Specific exercises to monitor property values may be undertaken where the property sector in a given geography has been subject to significant deterioration and where Barclays has a material concentration of property collateral. Monitoring may be undertaken either at the level of an individual property or at a portfolio level. Monitoring on a portfolio level refers to a more frequent process of indexing collateral values on each individual loan, using a regional or national index, and updating LGD values. Where an appropriate local index is not available, property values are monitored on an individual basis as part of the annual review process for the loan. For larger loans property valuation is reviewed by an independent valuer at least every 3 years, and an independent valuer also reviews the property valuation where information indicates that the value of the property may have declined materially relative to general market prices. In addition, trigger points are defined under which property values must be reviewed.

Liens over fluctuating assets such as inventory and trade receivables, known as floating charges, over the assets of a borrower are monitored annually. The valuation of this type of collateral takes into account the ability to establish objectively a price or market value, the frequency with which the value can be obtained (including a professional appraisal or valuation), and the volatility or a proxy for the volatility of the value of the collateral.

Additional revaluations are usually performed when a loan is moved to EWL or WL. More detail of when a corporate account may be moved to an EWL or WL may be found on page 21. Exceptions to this may be considered where it is clear a revaluation is not necessary, for instance where there is a very high margin of security or a recent valuation has been undertaken. Conversely, a material reduction in the value of collateral held represents an increase in credit risk and will often cause a loan to be placed on the EWL or WL.

Any one of these events may also trigger a test for impairment, depending on individual circumstances of the loan. When calculating impairment, the difference between an asset's carrying amount and the present value of all estimated cash flows discounted at the original effective interest rate will be recognised as impairment. Such cash flows include the estimated fair value of the collateral which reflects the results of the monitoring and review of collateral values as detailed above and valuations undertaken as part of our impairment process.

Whether property values are updated as part of the annual review process, or by indexation of collateral values, the updated collateral values feed into the calculation of risk parameters (for example Loss Given Default) which, in turn, feed into identified and unidentified impairment calculations at each balance sheet date. See Allowance for Impairment and Other Credit Provisions section on page 24 for more detail.

Trends in loan loss rates incorporate the impact of any decrease in the fair value of collateral held.

Where Barclays calculates regulatory capital under advanced IRB regulations the benefit of collateral is generally taken by adjusting LGDs. For standardised portfolios the benefit of collateral is taken using the financial collateral comprehensive method: supervisory volatility adjustments approach.

Risk transfer

The Group in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. The balances shown represent the notional value of the guarantees held by the Group issued by corporate and financial institutional counterparties. In addition, the Group obtains guarantees from customers in respect of personal loans and smaller business loans. These are not quantified in the above table.

Concentrations of credit risk

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

Geographic Concentrations

As at 31 December 2012, the geographic concentration of the Group's assets remained broadly consistent with 31 December 2011.

For balance sheet assets, the most significant change in concentrations was for cash held at central banks, with cash held as part of the liquidity pool moving from lower yielding Sterling and US Dollar accounts to higher yielding Euro and Swiss Franc accounts. There was also a notable increase in the proportion of available for sale debt securities issued by counterparties in Europe, primarily high quality bonds forming part of the Group liquidity pool. This increase was accompanied by a reduction in the proportion of debt securities issued by Asian (predominantly Japanese) and UK counterparties.

Within off-balance sheet, there was a significant reduction in the concentration of exposures in the Americas due to the cessation of the securities lending arrangements contracted with BlackRock, Inc. upon the disposal of Barclays Global Investors in 2009. Further detail on this transaction is included in Note 27.

Industrial Concentrations

As at 31 December 2012, the industrial concentration of the Group's assets remained broadly consistent with 31 December 2011, with 50% of total assets being concentrated towards banks and other financial institutions (2011: 51%). For balance sheet assets, the most significant change in concentration was for financial assets designated at fair value, for which the proportion of the overall balance that was concentrated towards governments and central banks increased by 11% on account of the acquisition during the year of economically hedged government bonds.

Within off-balance sheet, there was a significant reduction in the concentration of exposures to other financial institutions due to the cessation of the securities lending arrangements contracted with BlackRock, Inc. upon the disposal of Barclays Global Investors in 2009. Further detail on this transaction is included in Note 27.

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by geography

As at 31 December 2012	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
The Group						
On-balance sheet:						
Cash and balances at central banks	3,547	70,159	6,566	2,354	3,549	86,175
Items in the course of collection from other banks	788	296	-	371	1	1,456
Trading portfolio assets	16,408	21,386	62,875	2,985	13,509	117,163
Financial assets designated at fair value	24,100	3,546	5,644	1,947	604	35,841
Derivative financial instruments	147,651	157,609	127,367	4,264	32,255	469,146
Loans and advances to banks	7,915	14,942	12,278	2,110	3,653	40,898
Loans and advances to customers	228,007	81,442	63,252	46,093	6,935	425,729
Reverse repurchase agreements and other similar secured lending	29,565	25,743	98,313	4,133	19,202	176,956
Available for sale debt securities	24,024	29,803	11,128	7,103	2,619	74,677
Other assets	987	332	328	290	64	2,001
Total on-balance sheet	482,992	405,258	387,751	71,650	82,391	1,430,042
Off-balance sheet:						
Securities lending arrangements	-	-	-	-	-	-
Guarantees and letters of credit pledged as collateral security	6,135	2,560	4,772	2,131	257	15,855
Acceptances and endorsements	4,208	812	273	211	498	6,002
Documentary credits and other short term trade related transactions	629	103	-	295	-	1,027
Standby facilities, credit lines and other commitments	100,260	32,736	91,574	21,637	1,609	247,816
Total off-balance sheet	111,232	36,211	96,619	24,274	2,364	270,700
Total	594,224	441,469	484,370	95,924	84,755	1,700,742

Credit risk concentrations by geography

As at 31 December 2012	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
The Bank						
On-balance sheet:						
Cash and balances at central banks	3,321	69,691	5,481	195	3,308	81,996
Items in the course of collection from other banks	785	287	-	4	-	1,076
Trading portfolio assets	15,997	20,031	22,941	413	7,838	67,220
Financial assets designated at fair value	75,730	3,446	2,353	104	559	82,192
Derivative financial instruments	158,987	158,220	124,265	2,360	32,297	476,129
Loans and advances to banks	7,130	18,083	20,768	1,041	4,153	51,175
Loans and advances to customers	347,712	71,171	41,881	5,601	8,358	474,723
Reverse repurchase agreements and other similar secured lending	29,251	32,212	85,223	3,808	23,790	174,284
Available for sale debt securities	20,882	27,103	10,378	572	2,619	61,554
Other assets	776	157	43	-	32	1,008
Total on-balance sheet	660,571	400,401	313,333	14,098	82,954	1,471,357
Off-balance sheet:						
Securities lending arrangements	-	-	-	-	-	-
Guarantees and letters of credit pledges as collateral security	8,193	2,457	4,753	71	256	15,730
Acceptances, endorsements and other contingent liabilities	4,147	335	271	186	497	5,436
Documentary credits and other short term trade related transactions	627	6	-	111	-	744
Standby facilities, credit lines and other commitments	93,633	28,690	63,141	2,032	1,600	189,096
Total off-balance sheet	106,600	31,488	68,165	2,400	2,353	211,006
Total	767,171	431,889	381,498	16,498	85,307	1,682,363

Credit risk concentrations by geography						
	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m
The Group						
On-balance sheet:						
Cash and balances at central banks	14,631	53,779	27,065	2,418	9,001	106,894
Items in the course of collection from other banks	1,557	88	1	166	-	1,812
Trading portfolio assets	15,162	23,381	68,835	3,498	13,862	124,738
Financial assets designated at fair value	19,405	3,287	6,724	1,958	255	31,629
Derivative financial instruments	173,792	173,863	153,629	4,857	32,823	538,964
Loans and advances to banks	8,967	14,704	13,637	3,234	6,250	46,792
Loans and advances to customers	220,815	90,444	63,457	49,309	7,909	431,934
Reverse repurchase agreements and other similar secured lending	22,701	32,926	80,124	1,795	16,119	153,665
Available for sale debt securities	23,055	17,371	9,889	6,922	6,371	63,608
Other assets	1,510	407	256	365	82	2,620
Total on-balance sheet	501,595	410,250	423,617	74,522	92,672	1,502,656
Off-balance sheet:						
Securities lending arrangements	-	-	35,996	-	-	35,996
Guarantees and letters of credit pledged as collateral security	3,885	2,416	5,457	2,100	323	14,181
Acceptances, endorsements and other contingent liabilities[a]	5,861	1,107	303	155	840	8,266
Documentary credits and other short term trade related transactions	655	235	143	201	124	1,358
Standby facilities, credit lines and other commitments	99,735	33,004	85,381	20,478	1,684	240,282
Total off-balance sheet	110,136	36,762	127,280	22,934	2,971	300,083
Total	611,731	447,012	550,897	97,456	95,643	1,802,739

Credit risk concentrations by geography						
	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m
The Bank						
On-balance sheet:						
Cash and balances at central banks	14,550	52,896	26,711	170	8,760	103,087
Items in the course of collection from other banks	1,555	71	-	8	-	1,634
Trading portfolio assets	15,018	22,336	32,613	772	7,901	78,640
Financial assets designated at fair value	39,853	2,991	1,159	187	326	44,516
Derivative financial instruments	186,706	174,177	150,672	2,399	32,967	546,921
Loans and advances to banks	7,721	16,780	20,311	1,456	6,019	52,287
Loans and advances to customers	378,845	75,338	47,918	7,857	7,822	517,780
Reverse repurchase agreements and other similar secured lending	27,635	38,152	75,146	1,778	18,725	161,436
Available for sale debt securities	17,706	14,368	8,981	380	6,370	47,805
Other assets	868	188	62	17	35	1,170
Total on-balance sheet	690,457	397,297	363,573	15,024	88,925	1,555,276
Off-balance sheet:						
Securities lending arrangements	-	-	35,996	-	-	35,996
Guarantees and letters of credit pledged as collateral security	5,846	2,550	5,388	263	309	14,356
Acceptances, endorsements and other contingent liabilities[a]	4,811	501	301	130	840	6,583
Documentary credits and other short term trade related transactions	655	38	143	146	124	1,106
Standby facilities, credit lines and other commitments	92,512	29,033	65,049	1,764	2,378	190,736
Total off-balance sheet	103,824	32,122	106,877	2,303	3,651	248,777
Total	794,281	429,419	470,450	17,327	92,576	1,804,053

Note

a 2011 amounts have been restated to include analysis of other contingent liabilities of £7.8bn in The Group and £6.1bn in The Bank, identified as being exposed to credit risk.

Risk review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industrial sector

As at 31 December 2012	Banks £m	Other financial institutions £m	Manufacturing £m	Construction and property £m	Government £m	Energy and water £m	Wholesale and retail distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Group												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	86,175	-	-	-	-	-	-	86,175
Items in the course of collection from other banks	1,456	-	-	-	-	-	-	-	-	-	-	1,456
Trading portfolio assets	9,240	24,412	2,072	504	73,848	3,124	446	2,257	-	-	1,260	117,163
Financial assets designated at fair value	5,555	3,524	175	10,062	11,057	885	600	3,581	-	-	402	35,841
Derivative financial instruments	349,481	81,080	2,401	4,478	9,589	10,011	2,203	6,906	-	-	2,997	469,146
Loans and advances to banks	39,279	-	-	-	1,619	-	-	-	-	-	-	40,898
Loans and advances to customers	-	87,990	11,518	25,253	4,923	7,622	14,603	24,152	174,614	53,647	21,407	425,729
Reverse repurchase agreements and other similar secured lending	64,616	106,665	4	1,014	3,684	261	98	610	-	-	4	176,956
Available for sale debt securities	16,933	10,273	92	91	46,177	122	42	846	-	-	101	74,677
Other assets	249	632	2	34	165	6	8	192	13	694	6	2,001
Total on-balance sheet	486,809	314,576	16,264	41,436	237,237	22,031	18,000	38,544	174,627	54,341	26,177	1,430,042
Off-balance sheet:												
Guarantees and letters of credit pledged as collateral security	836	3,810	1,649	847	1,680	1,856	989	2,654	89	289	1,156	15,855
Acceptances, endorsements and other contingent liabilities	533	891	883	371	10	828	495	1,565	-	44	382	6,002
Documentary credits and other short-term trade related activities	559	51	55	3	-	1	77	275	-	4	2	1,027
Standby facilities, credit lines and other commitments	-	34,464	24,937	8,675	3,829	21,790	10,566	13,727	17,538	96,993	15,297	247,816
Total off-balance sheet	1,928	39,216	27,524	9,896	5,519	24,475	12,127	18,221	17,627	97,330	16,837	270,700
Total	488,737	353,792	43,788	51,332	242,756	46,506	30,127	56,765	192,254	151,671	43,014	1,700,742

Credit risk concentrations by industrial sector												
	Banks	Other financial insti-tutions	Manu-facturing	Const-ruction and property	Govern-ment	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
As at 31 December 2012	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Bank												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	81,996	-	-	-	-	-	-	81,996
Items in the course of collection from other banks	1,076	-	-	-	-	-	-	-	-	-	-	1,076
Trading portfolio assets	3,030	11,446	1,032	371	45,868	2,463	289	1,805	-	-	916	67,220
Financial assets designated at fair value	3,505	58,772	95	9,847	5,781	299	394	3,384	-	-	115	82,192
Derivative financial instruments	345,987	91,655	2,504	4,476	9,583	9,930	2,176	6,867	-	-	2,951	476,129
Loans and advances to banks	49,976	-	-	-	1,199	-	-	-	-	-	-	51,175
Loans and advances to customers	-	215,814	9,800	20,157	4,273	6,641	12,884	20,577	140,742	32,071	11,764	474,723
Reverse repurchase agreements and other similar secured lending	40,548	129,364	-	82	3,659	257	93	281	-	-	-	174,284
Available for sale debt securities	13,769	8,662	92	86	38,535	122	34	200	-	-	54	61,554
Other assets	64	112	1	17	152	-	-	109	12	541	-	1,008
Total on-balance sheet	457,956	515,825	13,524	35,036	191,046	19,712	15,870	33,223	140,754	32,612	15,800	1,471,357
Off-balance sheet:												
Securities lending arrangements	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees and letters of credit pledged as collateral security	639	5,773	1,423	510	1,606	1,702	716	2,290	2	218	851	15,730
Acceptances, endorsements and other contingent liabilities	-	1,374	801	292	10	796	461	1,358	-	9	335	5,436
Documentary credits and other short-term trade related activities	-	446	35	2	-	-	77	178	-	4	2	744
Standby facilities, credit lines and other commitments	409	31,586	22,910	7,434	3,663	20,484	8,809	14,568	15,439	53,926	9,868	189,096
Total off-balance sheet	1,048	39,179	25,169	8,238	5,279	22,982	10,063	18,394	15,441	54,157	11,056	211,006
Total	459,004	555,004	38,693	43,274	196,325	42,694	25,933	51,617	156,195	86,769	26,856	1,682,363

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Credit risk concentrations by industrial sector												
	Banks	Other financial insti-tutions	Manu-facturing	Const-ruction and property	Govern-ment	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Group												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	106,894	-	-	-	-	-	-	106,894
Items in the course of collection from other banks	1,810	-	-	-	2	-	-	-	-	-	-	1,812
Trading portfolio assets	4,857	27,992	1,585	480	83,631	3,191	448	1,773	-	-	781	124,738
Financial assets designated at fair value	6,050	3,320	75	10,447	6,354	1,053	332	3,547	-	1	450	31,629
Derivative financial instruments	401,465	96,781	4,044	4,853	8,321	12,960	3,309	3,928	-	19	3,284	538,964
Loans and advances to banks	44,053	-	-	-	2,739	-	-	-	-	-	-	46,792
Loans and advances to customers	-	89,650	12,904	28,711	6,129	7,414	16,206	26,300	171,272	50,062	23,286	431,934
Reverse repurchase agreements and other similar secured lending	61,544	86,930	195	201	3,842	127	63	235	-	-	528	153,665
Available for sale debt securities	15,959	7,142	213	137	38,511	126	90	820	370.0	-	240	63,608
Other assets	506	374	-	54	492	-	7	310	2	818	57	2,620
Total on-balance sheet	536,496	311,937	19,016	44,883	256,915	24,871	20,455	36,913	171,644	50,900	28,626	1,502,656
Off-balance sheet:												
Securities lending arrangements	-	35,996	-	-	-	-	-	-	-	-	-	35,996
Guarantees and letters of credit pledged as collateral security	990	3,947	1,534	757	630	1,615	913	2,213	-	310	1,272	14,181
Acceptances, endorsements and other contingent liabilities[a]	599	1,214	1,075	459	7	865	527	2,945	-	38	537	8,266
Documentary credits and other short-term trade related activities	428	128	40	1	-	-	215	480	-	65	1	1,358
Standby facilities, credit lines and other commitments	785	32,511	23,429	9,114	3,573	20,764	12,052	17,012	15,663	90,062	15,317	240,282
Total off-balance sheet	2,802	73,796	26,078	10,331	4,210	23,244	13,707	22,650	15,663	90,475	17,127	300,083
Total	539,046	385,985	45,094	55,214	261,125	48,115	34,162	59,563	187,307	141,375	45,753	1,802,739

Note
a 2011 amounts have been restated to include analysis of other contingent liabilities of £7,791m.

Credit risk concentrations by industrial sector												
	Banks	Other financial institutions	Manufacturing	Construction and property	Government	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Bank												
On-balance sheet:												
Cash and balances at central banks	-	-	-	-	103,087	-	-	-	-	-	-	103,087
Items in the course of collection from other banks	1,634	-	-	-	-	-	-	-	-	-	-	1,634
Trading portfolio assets	3,913	13,238	935	381	55,324	2,629	346	1,312	-	-	562	78,640
Financial assets designated at fair value	3,047	22,120	62	9,831	5,609	220	154	3,349	-	-	124	44,516
Derivative financial instruments	397,650	108,490	4,251	4,851	8,321	12,857	3,367	3,908	-	-	3,226	546,921
Loans and advances to banks	50,007	-	-	-	2,280	-	-	-	-	-	-	52,287
Loans and advances to customers	-	259,041	10,772	23,219	5,474	6,496	14,311	24,468	133,516	29,348	11,135	517,780
Reverse repurchase agreements and other similar secured lending	43,463	112,987	195	3	3,842	127	63	229	-	-	527	161,436
Available for sale debt securities	11,146	5,392	213	133	30,443	126	69	57	-	-	226	47,805
Other assets	100	126	-	22	6	-	4	221	2	687	0	1,170
Total on-balance sheet	**510,960**	521,396	16,428	38,440	214,386	22,455	18,314	33,544	133,518	30,035	15,800	1,555,276
Off-balance sheet:												
Securities lending arrangements	-	35,996	-	-	-	-	-	-	-	-	-	35,996
Guarantees and letters of credit pledged as collateral security	557	6,264	1,274	544	596	1,591	710	1,591	-	226	1,003	14,356
Acceptances, endorsements and other contingent liabilities[a]	-	890	981	341	6	783	485	2,592	-	15	490	6,583
Documentary credits and other short-term trade related activities	-	533	40	1	-	-	215	251	-	65	1	1,106
Standby facilities, credit lines and other commitments	695	35,237	21,628	8,506	3,391	19,545	10,609	14,881	15,656	50,644	9,944	190,736
Total off-balance sheet	1,252	78,920	23,923	9,392	3,993	21,919	12,019	19,315	15,656	50,950	11,438	248,777
Total	512,212	600,316	40,351	47,832	218,379	44,374	30,333	52,859	149,174	80,985	27,238	1,804,053

Note
a 2011 amounts have been restated to include analysis of other contingent liabilities of £6,134m.

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality

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

Basis of Preparation

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

Financial statement descriptions can be summarised as follows:

- Strong: there is a very high likelihood of the asset being recovered in full;
- Satisfactory – whilst there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Group, the asset may not be collateralised, or may relate to retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification;
- Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided.

Overview

As at 31 December 2012, the proportion of the Group's assets classified as strong fell marginally to 83% (2011: 84%) of total assets exposed to credit risk.

Traded assets continued to remain mostly investment grade, with counterparties to 94%% (2011: 95%) of total derivative financial instruments, and issuers of 94%% (2011: 95%) of debt securities held for trading and 94% (2011: 91%) of debt securities held available for sale being investment grade. The credit quality of counterparties to reverse repurchase agreements held at amortised cost remained broadly stable at 73% (2011: 77%). The credit risk of these assets is much reduced with balances being fully collateralised.

In the loan portfolios, 81% of home loans (2011: 78%) to customers are measured as strong. This increase in the period reflects improvements in the UK portfolio. The majority of credit card, unsecured and other retail lending remained satisfactory, reflecting the unsecured nature of a significant proportion of the balance, comprising 69% of the total (2011: 70%). The credit quality profile of the Group's corporate lending improved with counterparties rated strong increasing to 66% (2011: 61%), primarily due to the continued active management of corporate books in the Investment Bank and Corporate Banking.

Balance Sheet Credit Quality							
As at 31st December 2012	Strong (Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B-and below) %
The Group							
Cash and balances at central banks	86,175	-	-	86,175	100	-	-
Items in the course of collection from other banks	1,320	103	33	1,456	91	7	2
Trading portfolio assets:							
Debt securities	107,784	5,604	1,371	114,759	94	5	1
Traded loans	454	1,617	333	2,404	19	67	14
Total trading portfolio assets	108,238	7,221	1,704	117,163	92	6	2
Financial assets designated at fair value:							
Loans and advances	19,608	1,684	704	21,996	89	8	3
Debt securities	5,485	164	469	6,118	90	3	7
Reverse repurchase agreements	5,010	963	61	6,034	83	16	1
Other financial assets	623	967	103	1,693	37	57	6
Total financial assets designated at fair value	30,726	3,778	1,337	35,841	86	10	4
Derivative financial instruments	443,102	23,498	2,546	469,146	94	5	1
Loans and advances to banks	37,104	2,868	926	40,898	91	7	2
Loans and advances to customers:							
Home loans	142,828	20,407	11,753	174,988	81	12	7
Credit cards, unsecured and other retail lending	15,169	45,852	5,393	66,414	23	69	8
Corporate loans	121,417	51,196	11,714	184,327	66	28	6
Total loans and advances to customers	279,414	117,455	28,860	425,729	66	27	7
Reverse repurchase agreements and other similar secured lending	129,687	47,078	191	176,956	73	27	-
Available for sale debt securities	69,877	2,331	2,469	74,677	94	3	3
Other assets	1623	322	56	2,001	81	16	3
Total assets	1,187,266	204,654	38,122	1,430,042	83	14	3

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality							
As at 31st December 2012	Strong (Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B-and below) %
The Bank							
Cash and balances at central banks	81,996	-	-	81,996	100	-	-
Items in the course of collection from other banks	951	107	18	1,076	88	10	2
Trading portfolio assets:							
Debt securities	59,621	4,499	707	64,827	92	7	1
Traded loans	454	1,606	333	2,393	19	67	14
Total trading portfolio assets	60,075	6,105	1,040	67,220	89	9	2
Financial assets designated at fair value:							
Loans and advances	19,290	1,444	331	21,065	91	7	2
Debt securities	56,354	53	93	56,500	99	-	1
Reverse repurchase agreements	3,188	398	16	3,602	89	11	-
Other financial assets	567	356	102	1,025	55	35	10
Total financial assets designated at fair value	79,399	2,251	542	82,192	94	5	1
Derivative financial instruments	450,326	23,257	2,546	476,129	95	5	-
Loans and advances to banks	45,245	5,082	848	51,175	88	10	2
Loans and advances to customers:							
Home loans	127,644	7,592	8,448	143,684	89	5	6
Credit cards, unsecured and other retail lending	8,681	20,251	2,581	31,513	28	64	8
Corporate loans	250,361	38,768	10,397	299,526	84	13	3
Total loans and advances to customers	386,686	66,611	21,426	474,723	81	14	5
Reverse repurchase agreements and other similar secured lending	145,794	28,475	15	174,284	84	16	-
Available for sale debt securities	58,586	713	2,255	61,554	95	1	4
Other assets	882	105	21	1,008	88	10	2
Total assets	1,309,940	132,706	28,711	1,471,357	89	9	2

Balance Sheet Credit Quality							
As at 31st December 2011	Strong (Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B-and below) %
The Group							
Cash and balances at central banks	106,894	-	-	106,894	100	-	-
Items in the course of collection from other banks	1,612	100	100	1,812	88	6	6
Trading portfolio assets:							
Debt securities	116,743	4,922	1,699	123,364	95	4	1
Traded loans	74	821	479	1,374	5	60	35
Total trading portfolio assets	116,817	5,743	2,178	124,738	93	5	2
Financial assets designated at fair value:							
Loans and advances	19,484	1,487	989	21,960	89	7	4
Debt securities	1,163	184	748	2,095	55	9	36
Reverse repurchase agreements	4,018	1,554	207	5,779	69	27	4
Other financial assets	655	1,079	61	1,795	36	60	4
Total financial assets designated at fair value	25,320	4,304	2,005	31,629	80	14	6
Derivative financial instruments	515,109	19,875	3,980	538,964	95	4	1
Loans and advances to banks	41,624	2,594	2,574	46,792	89	5	6
Loans and advances to customers:							
Home loans	134,009	25,847	11,416	171,272	78	15	7
Credit cards, unsecured and other retail lending	14,226	45,388	4,878	64,492	22	70	8
Corporate loans	119,856	59,370	16,944	196,170	61	30	9
Total loans and advances to customers	268,091	130,605	33,238	431,934	62	30	8
Reverse repurchase agreements and other similar secured lending	117,719	34,653	1,293	153,665	77	22	1
Available for sale debt securities	57,793	3,253	2,562	63,608	91	5	4
Other assets	2,130	417	73	2,620	81	16	3
Total assets	1,253,109	201,544	48,003	1,502,656	84	13	3

Risk review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Balance Sheet Credit Quality

As at 31st December 2011	Strong (Investment Grade) £m	Satisfactory (BB+ to B) £m	Higher Risk (B- and below) £m	Maximum Exposure to Credit Risk £m	Strong (Investment Grade) %	Satisfactory (BB+ to B) %	Higher Risk (B-and below) %
The Bank							
Cash and balances at central banks	103,087	-	-	103,087	100	-	-
Items in the course of collection from other banks	1,399	163	72	1,634	86	10	4
Trading portfolio assets:							
Debt securities	73,467	2,587	1,225	77,279	95	3	2
Traded loans	61	821	479	1,361	5	60	35
Total trading portfolio assets	73,528	3,408	1,704	78,640	94	4	2
Financial assets designated at fair value:							
Loans and advances	20,430	1,241	228	21,899	93	6	1
Debt securities	18,974	2	222	19,198	99	-	1
Reverse repurchase agreements	2,183	291	18	2,492	87	12	1
Other financial assets	608	260	59	927	66	28	6
Total financial assets designated at fair value	42,195	1,794	527	44,516	95	4	1
Derivative financial instruments	523,323	19,618	3,980	546,921	96	3	1
Loans and advances to banks	44,782	5,215	2,290	52,287	86	10	4
Loans and advances to customers:							
Home loans	116,339	9,903	7,274	133,516	87	7	6
Credit cards, unsecured and other retail lending	9,654	20,614	2,553	32,821	29	63	8
Corporate loans	290,529	45,482	15,432	351,443	83	13	4
Total loans and advances to customers	416,522	75,999	25,259	517,780	80	15	5
Reverse repurchase agreements and other similar secured lending	134,371	25,773	1,292	161,436	83	16	1
Available for sale debt securities	44,129	1,304	2,372	47,805	92	3	5
Other assets	1,028	112	30	1,170	88	10	2
Total Assets	1,384,364	133,386	37,526	1,555,276	89	9	2

Age analyses of loans and advances that are past due but not impaired and loans and advances that are impaired are set out below:

Loans and advances past due but not impaired

As at 31 December 2012	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m
The Group						
Loans and advances designated at fair values	**108**	**50**	**39**	**19**	**176**	**392**
Home loans	**127**	**23**	**48**	**42**	**39**	**279**
Credit cards, unsecured lending and other retail lending	**133**	**6**	**6**	**8**	**35**	**188**
Corporate loans	**4,261**	**471**	**459**	**236**	**427**	**5,854**
Total	**4,629**	**550**	**552**	**305**	**677**	**6,713**
The Bank						
Loans and advances designated at fair values	**108**	**30**	**-**	**8**	**56**	**202**
Home loans	**76**	**14**	**29**	**30**	**21**	**170**
Credit cards, unsecured lending and other retail lending	**118**	**1**	**4**	**3**	**29**	**155**
Corporate loans	**4,223**	**381**	**348**	**218**	**443**	**5,613**
Total	**4,525**	**426**	**381**	**259**	**549**	**6,140**

Loans and advances past due but not impaired

As at 31 December 2011	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m
The Group						
Loans and advances designated at fair values	56	46	-	3	327	432
Home loans	35	5	22	31	21	114
Credit cards, unsecured lending and other retail lending	117	29	27	48	127	348
Corporate loans	8,343	315	298	315	236	9,507
Total	8,551	395	347	397	711	10,401
The Bank						
Loans and advances designated at fair values	36	4	-	-	87	127
Home loans	17	5	13	20	13	68
Credit cards, unsecured lending and other retail lending	88	9	15	19	115	246
Corporate loans	6,514	326	174	163	172	7,349
Total	6,655	344	202	202	387	7,790

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Loans and advances assessed as impaired	Collectively assessed							Total
As at 31 December 2012	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m	Individually assessed £m	£m
The Group								
Home loans	**4,649**	**2,297**	**650**	**888**	**1,964**	**10,448**	**783**	**11,231**
Credit cards, unsecured lending and other retail lending	**1,539**	**938**	**345**	**550**	**2,864**	**6,236**	**1,617**	**7,853**
Corporate loans	**344**	**57**	**46**	**57**	**872**	**1,376**	**7,449**	**8,825**
Total	**6,532**	**3,292**	**1,041**	**1,495**	**5,700**	**18,060**	**9,849**	**27,909**
The Bank								
Home loans	**4,247**	**1,587**	**462**	**624**	**716**	**7,636**	**493**	**8,129**
Credit cards, unsecured lending and other retail lending	**1,018**	**582**	**187**	**305**	**1,886**	**3,978**	**477**	**4,455**
Corporate loans	**279**	**42**	**26**	**34**	**650**	**1,031**	**5,951**	**6,982**
Total	**5,544**	**2,211**	**675**	**963**	**3,252**	**12,645**	**6,921**	**19,566**

Loans and advances assessed as impaired	Collectively assessed							
As at 31 December 2011	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m	Individually assessed £m	Total £m
The Group								
Home loans	4,034	2,636	550	1,345	2,113	10,678	382	11,060
Credit cards, unsecured lending and other retail lending	1,390	1,117	357	885	3,585	7,334	702	8,036
Corporate loans	138	71	71	81	455	816	9,607	10,423
Total	5,562	3,824	978	2,311	6,153	18,828	10,691	29,519
The Bank								
Home loans	3,601	1,536	453	575	694	6,859	343	7,202
Credit cards, unsecured lending and other retail lending	895	652	200	354	2,648	4,749	96	4,845
Corporate loans	128	69	68	75	390	730	7,116	7,846
Total	4,624	2,257	721	1,004	3,732	12,338	7,555	19,893

Impairment Allowances

The movements on the impairment allowance during the year were as follows:

Movements in allowance for impairment by asset class								
2012	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to income statement £m	Balance at 31 December £m
The Group								
Home loans	**834**	**-**	**(45)**	**(33)**	**(382)**	**24**	**457**	**855**
Credit cards, unsecured and other retail lending	**4,540**	**(59)**	**(144)**	**(248)**	**(2,102)**	**119**	**1,674**	**3,780**
Corporate loans	**5,223**	**(21)**	**(22)**	**(5)**	**(1,635)**	**69**	**1,432**	**5,041**
Total impairment allowance	**10,597**	**(80)**	**(211)**	**(286)**	**(4,119)**	**212**	**3,563**	**9,676**
The Bank								
Home loans	**286**	**-**	**(6)**	**(18)**	**(47)**	**2**	**78**	**295**
Credit cards, unsecured and other retail lending	**2,974**	**-**	**(105)**	**(5)**	**(1,286)**	**83**	**1,056**	**2,717**
Corporate loans	**4,159**	**-**	**-**	**(112)**	**(1,308)**	**39**	**1,052**	**3,830**
Total impairment allowance	**7,419**	**-**	**(111)**	**(135)**	**(2,641)**	**124**	**2,186**	**6,842**

Movements in allowance for impairment by asset class								
2011	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to income statement £m	Balance at 31 December £m
The Group								
Home loans	854	(2)	(80)	(101)	(184)	14	333	834
Credit cards, unsecured and other retail lending	5,919	(4)	(154)	(145)	(3,292)	139	2,077	4,540
Corporate loans	5,659	(12)	(9)	(194)	(1,689)	112	1,356	5,223
Total impairment allowance	12,432	(18)	(243)	(440)	(5,165)	265	3,766	10,597
The Bank								
Home loans	215	-	(5)	(3)	(41)	13	107	286
Credit cards, unsecured and other retail lending	3,450	-	(110)	4	(1,610)	127	1,113	2,974
Corporate loans	4,459	-	-	(117)	(1,353)	43	1,127	4,159
Total impairment allowance	8,124	-	(115)	(116)	(3,004)	183	2,347	7,419

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Loan loss rates As at 31st December	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Impairment charge £m	Loan loss rate bps
The Group					
2012	**476,303**	**9,676**	**466,627**	**3,559**	**75**
2011	489,323	10,597	478,726	3,790	77
The Bank					
2012	**532,740**	**6,842**	**525,898**	**2,192**	**41**
2011	577,486	7,419	570,067	2,387	41

Barclays Credit Market Exposures[a]

Barclays credit market exposures					2012		
As at 31 December	2012 $m	2011 $m	2012 £m	2011 £m	Fair value (losses)/ gains and net funding £m	Impairment (charge)/ release £m	Total (losses)/ gains £m
US Residential Mortgages							
ABS CDO Super Senior	**2,243**	2,844	**1,387**	1,842	**(33)**	**(232)**	**(265)**
US sub-prime and Alt-A[b]	**1,129**	2,134	**698**	1,381	**83**	**(22)**	**61**
Commercial Mortgages							
Commercial real estate loans and properties	**4,411**	8,228	**2,727**	5,329	**115**	**-**	**115**
Commercial mortgaged backed securities[b]	**411**	1,578	**254**	1,022	**154**	**-**	**154**
Monoline protection on CMBS	**-**	14	**-**	9	**-**	**-**	**-**
Other Credit Market							
Leveraged Finance[c]	**5,732**	6,278	**3,544**	4,066	**(54)**	**11**	**(43)**
SIVs, SIV -Lites and CDPCs	**-**	9	**-**	6	**(1)**	**-**	**(1)**
Monoline protection on CLO and other	**956**	1,729	**591**	1,120	**(29)**	**-**	**(29)**
CLO and other assets[b]	**176**	596	**109**	386	**52**	**-**	**52**
Total	**15,058**	**23,410**	**9,310**	**15,161**	**287**	**(243)**	**44**

During 2012, credit market exposures decreased by £5,851m to £9,310m, reflecting net sales and paydowns and other movements of £5,436m, foreign exchange movements of £459m, offset by net fair value gains and impairment charges of £44m.

Net sales, paydowns and other movements of £5,436m included:

- £2,497m of commercial real estate loans and properties including sale of BauBeCon for £898m (€1,131m) in August, 100% stake in Archstone for £857m ($1,338m) and sale of Calwest for £341m ($550m) in September;
- £885m commercial mortgage backed securities;
- £693m US sub-prime and Alt-A;
- £470m leveraged finance primarily relating to three counterparties;
- £449m monoline protection on CLO and other; and
- £317m CLO and other assets.

ABS CDO Super Senior and leveraged finance exposures are accounted for at amortised cost less impairment. The fair values of these exposures as at 31 December 2012 were £922m and £3,059m respectively (31 December 2011: £917m and £3,350m). Materially, all other credit market exposures are accounted for on a fair value basis.

Notes

a As the majority of exposure is held in US Dollars, the exposures above are shown in both US Dollars and Sterling.

b Collateral assets of £719m (31 December 2011: £2,272m) previously underlying the Protium loan are now included within the relevant asset classes as the assets are now managed alongside similar credit market exposures. These assets comprised: US sub-prime and Alt-A £352m (31 December 2011: £965m), commercial mortgage-backed securities £258m (31 December 2011: £921m), CLO and Other assets £109m (31 December 2011: £386m).

c Includes undrawn commitments of £202m (31 December 2011: £180m).

Group exposures to Eurozone countries (audited)

Overview

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

- Direct risk arising from sovereign default of an exiting country and the impact on the economy of, and the Group's counterparties in, that country;
- Indirect risk arising from the subsequent impact on the economy of, and the Group's counterparties in, other Eurozone countries;
- Indirect risk arising from credit derivatives that reference Eurozone sovereign debt (see page 58); and
- Direct redenomination risk on the potential mismatch in the currency of the assets and liabilities on balance sheets of the Group's local operations in countries in the Eurozone (see page 59).

The Group has performed and continues to perform stress tests to model the event of a break-up of the Eurozone area. Contingency planning has also been undertaken based on a series of potential scenarios that might arise from an escalation in the crisis. Multiple tests have been run to establish the impact on customers, systems, processes and staff in the event of the most plausible scenarios. Where issues have been identified, appropriate remedial actions have either been completed or are underway.

During 2012 the Group's net on-balance sheet exposures to Spain, Italy, Portugal, Ireland, Cyprus and Greece reduced by 13% to £59.0bn. Exposure to retail customers and corporate clients reduced 12% to £48.1bn; largely reflecting reduced lending in Spain, Italy and Portugal as part of the active management to reduce redenomination risk. Sovereign exposure decreased 29% to £5.0bn principally due to a reduction in government bonds held as available for sale.

Basis of Preparation

These disclosures are prepared on the same basis as the previous Annual Report and present the direct balance sheet exposure to credit and market risk by country, with the totals reflecting allowance for impairment, netting and cash collateral held where appropriate.

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

- Trading assets and liabilities are presented by issuer type, whereby positions are netted to the extent allowable under IFRS. Where liability positions exceed asset positions by counterparty type, exposures are presented as nil;
- Derivative assets and liabilities are presented by counterparty type, whereby positions are netted to the extent allowable under IFRS. Cash collateral held is then added to give a net credit exposure. Where liability positions and collateral held exceed asset positions by counterparty type, exposures are presented as nil; and
- Assets designated at fair value include debt and equity securities, loans and reverse repurchase agreements that have been designated at fair value.
- Available for sale assets are principally investments in government bonds and other debt securities. Balances are reported on a fair value basis, with movements in fair value going through other comprehensive income (OCI).

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

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

Notes

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

b In addition, the Group held cash with the central banks of these countries totalling £0.7bn as at 31 December 2012 (2011: £0.8bn). Other material balances with central banks are classified within loans to financial institutions.

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Summary of Group Exposures

The following table shows Barclays exposure to Eurozone countries monitored internally as being higher risk and thus being the subject of particular management focus. Detailed analysis on these countries is on pages 53 to57. Exposures on loans and advances to geographic regions including Europe as a whole are set out on pages 32 to 33. The net exposure provides the most appropriate measure of the credit risk to which the Group is exposed. The gross exposure is also presented below, alongside off-balance sheet contingent liabilities and commitments. Gross exposure reflects total exposures before the effects of economic hedging by way of trading portfolio liabilities, derivative liabilities, and cash collateral, but after taking into account impairment allowances and IFRS netting.

Net exposure by country and counterparty (audited)

	Sovereign	Financial institutions	Corporate	Residential mortgages	Other retail lending	Total net on-balance sheet exposure	Contingent liabilities and commit-ments	Total net exposure
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2012								
Spain	**1,690**	**1,488**	**4,135**	**13,305**	**2,428**	**23,046**	**3,301**	**26,347**
Italy	**2,669**	**528**	**1,962**	**15,591**	**1,936**	**22,686**	**3,082**	**25,768**
Portugal	**637**	**48**	**1,958**	**3,474**	**1,783**	**7,900**	**2,588**	**10,488**
Ireland	**11**	**3,768**	**1,127**	**112**	**83**	**5,101**	**1,644**	**6,745**
Cyprus	**8**	**-**	**106**	**44**	**26**	**184**	**131**	**315**
Greece	**1**	**-**	**61**	**8**	**9**	**79**	**5**	**84**
As at 31 December 2011								
Spain	2,530	987	5,345	14,654	3,031	26,547	3,842	30,389
Italy	3,493	669	2,918	15,934	2,335	25,349	3,140	28,489
Portugal	810	51	3,295	3,651	2,053	9,860	2,536	12,396
Ireland	244	4,311	977	94	86	5,712	1,582	7,294
Cyprus	15	-	128	51	2	196	127	323
Greece	14	2	67	5	18	106	26	132

During 2012 the Group's sovereign exposure to Spain, Italy, Portugal, Ireland, Cyprus and Greece reduced by 29% to £5.0bn. Spanish sovereign exposure reduced 33% to £1.7bn due to the disposal of available for sale government bonds, held for the purpose of interest rate hedging and liquidity, which have been replaced by interest rate swaps with alternative counterparties. Italian sovereign exposure decreased 24% to £2.7bn principally due to a reduction in government bonds held as available for sale.

Residential mortgage exposure reduced by 5% to £32.5bn, reflecting lower new originations across Spain, Italy and Portugal in line with Group strategy to reduce redenomination risk. Other retail lending reduced by 17% to £6.3bn driven primarily by reduced lending to business banking customers in Spain and Portugal as a result of the challenging economic conditions. Corporate exposure reduced 27% to £9.3bn, largely reflecting reduced lending in Spain, Italy and Portugal as part of the active management to reduce the aggregate net funding mismatch in local balance sheets. Exposures to financial institutions fell marginally by 3% to £5.8bn, with reduced exposure in Ireland of £0.5bn and in Italy of £0.1bn offsetting an increase in Spain of £0.5bn.

Gross exposure by country and counterparty (audited)	Sovereign	Financial institutions	Corporate	Residential mortgages	Other retail lending	Total gross on-balance sheet exposure	Contingent liabilities and commit-ments	Total gross exposure
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2012								
Spain	**2,523**	**9,253**	**4,447**	**13,305**	**2,428**	**31,956**	**3,301**	**35,257**
Italy	**5,428**	**7,687**	**2,348**	**15,591**	**1,936**	**32,990**	**3,082**	**36,072**
Portugal	**1,035**	**347**	**2,130**	**3,474**	**1,783**	**8,769**	**2,588**	**11,357**
Ireland	**46**	**8,613**	**1,397**	**112**	**83**	**10,251**	**1,644**	**11,895**
Cyprus	**8**	**102**	**120**	**44**	**26**	**300**	**131**	**431**
Greece	**3**	**1,181**	**61**	**8**	**9**	**1,262**	**5**	**1,267**
As at 31 December 2011								
Spain	3,278	8,593	5,751	14,654	3,031	35,307	3,842	39,149
Italy	5,530	6,921	3,469	15,934	2,335	34,189	3,140	37,329
Portugal	1,102	400	3,541	3,651	2,053	10,747	2,536	13,283
Ireland	348	10,105	1,665	94	86	12,298	1,582	13,880
Cyprus	15	120	128	51	2	316	127	443
Greece	14	1,111	67	5	18	1,215	26	1,241

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

Net exposure by country and counterparty (audited)	Sovereign	Financial institutions	Corporate	Residential mortgages	Other retail lending	Total net on-balance sheet exposure	Contingent liabilities and commit-ments	Total net exposure
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2012								
France	**3,746**	**5,345**	**3,905**	**2,607**	**121**	**15,724**	**7,712**	**23,436**
Germany	**277**	**4,454**	**4,945**	**27**	**1,734**	**11,437**	**6,604**	**18,041**
Netherlands	**3,503**	**4,437**	**2,002**	**16**	**92**	**10,050**	**2,205**	**12,255**
Luxembourg	**13**	**1,481**	**704**	**151**	**49**	**2,398**	**812**	**3,210**
Belgium	**2,548**	**284**	**239**	**9**	**6**	**3,086**	**1,525**	**4,611**
Austria	**1,047**	**228**	**187**	**5**	**-**	**1,467**	**127**	**1,594**
Finland	**1,044**	**209**	**140**	**3**	**-**	**1,396**	**461**	**1,857**
Other	**210**	**9**	**24**	**26**	**41**	**310**	**25**	**335**
As at 31 December 2011								
France	4,189	4,969	4,232	2,796	260	**16,446**	8,121	**24,567**
Germany	3,444	2,570	2,963	14	1,551	**10,542**	6,623	**17,165**
Netherlands	244	4,596	1,807	14	4	**6,665**	1,899	**8,564**
Luxembourg[a]	-	1,842	809	103	85	**2,839**	765	**3,604**
Belgium	2,033	42	282	10	-	**2,367**	881	**3,248**
Austria	134	360	237	5	2	**738**	119	**857**
Finland	298	47	43	3	-	**391**	447	**838**
Other	202	3	35	32	43	**315**	49	**364**

Note
a Exposure to financial institutions has been restated to exclude exposures to supranational entities.

Risk review

Credit Risk

All disclosures in this section are audited unless otherwise stated

During 2012 the Group's net on-balance sheet exposures to other Eurozone countries increased by 14% to £45.9bn. Sovereign exposure increased 17% to £12.4bn principally due to an increase in government bonds held as available for sale in the Netherlands, Austria and Finland of £4.4bn, partially offset by a reduction in traded exposures to Germany of £3.0bn. Exposures to financial institutions and corporates increased 14% and 17%, to £16.4bn and £12.1bn respectively, reflecting increases in securities issued by German counterparties.

Gross exposure by country and counterparty (audited)

	Sovereign	Financial institutions	Corporate	Residential mortgages	Other retail lending	Total gross on-balance sheet exposure	Contingent liabilities and commit-ments	Total gross exposure
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2012								
France	**6,310**	**44,631**	**5,301**	**2,607**	**121**	**58,970**	**7,712**	**66,682**
Germany	**7,413**	**45,686**	**7,156**	**27**	**1,734**	**62,016**	**6,604**	**68,620**
Netherlands	**5,365**	**20,217**	**2,856**	**16**	**92**	**28,546**	**2,205**	**30,751**
Luxembourg	**13**	**5,092**	**1,061**	**151**	**49**	**6,366**	**812**	**7,178**
Belgium	**3,764**	**6,214**	**560**	**9**	**6**	**10,553**	**1,525**	**12,078**
Austria	**1,332**	**2,320**	**273**	**5**	**-**	**3,930**	**127**	**4,057**
Finland	**1,624**	**7,228**	**265**	**3**	**-**	**9,120**	**461**	**9,581**
Other	**525**	**28**	**29**	**26**	**41**	**649**	**25**	**674**
As at 31 December 2011								
France	6,636	44,879	5,771	2,796	260	60,342	8,121	68,463
Germany	9,105	45,639	5,708	14	1,551	62,017	6,623	68,640
Netherlands	2,116	14,399	7,273	14	4	23,806	1,899	25,705
Luxembourg	1,034	4,221	1,056	103	85	6,499	765	7,264
Belgium	2,889	9,760	653	10	-	13,312	881	14,193
Austria	454	2,922	289	5	2	3,672	119	3,791
Finland	1,023	11,821	127	3	-	12,974	447	13,421
Other	489	35	35	32	43	634	49	683

Spain (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Total	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2012	2011
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	905	(806)	99	27	(27)	-	-	-	99	-
Financial institutions	577	(117)	460	7,648	(7,560)	(88)	-	291	751	221
Corporate	272	(106)	166	489	(206)	-	283	365	814	629

Available for sale assets				
Fair value through equity	Cost[a]	AFS reserve	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	1,588	(26)	1,562	2,468
Financial institutions	491	(11)	480	490
Corporate	10	-	10	2

Loans and advances				
Held at amortised cost	Gross	Impairment allowances	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	29	-	29	62
Financial institutions	271	(14)	257	276
Residential mortgages	13,424	(119)	13,305	14,654
Corporate	4,371	(1,060)	3,311	4,714
Other retail lending	2,564	(136)	2,428	3,031

Contingent liabilities and commitments		
	2012	2011
As at 31 December	£m	£m
Sovereign	-	188
Financial institutions	88	22
Residential mortgages	12	20
Corporate	1,938	2,510
Other retail lending	1,263	1,102

Note

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

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Sovereign

- £1,562m (2011: £2,468m) AFS holdings in government bonds. No impairment and £26m (2011: £51m) cumulative fair value loss held in AFS reserve.

Financial institutions

- £751m (2011: £221m) held at fair value through profit and loss, predominantly debt securities held by the Investment Bank to support trading and market making activities; and
- £480m (2011: £490m) AFS assets with £11m (2011: £17m) cumulative loss held in AFS reserve.

Residential mortgages

- £13,305m (2011: £14,654m) fully secured on residential property with average balance weighted marked to market LTV of 64.6% (2011: 60.1%). The increase in LTV is reflected in the CRL coverage of 36% (2011: 28%); and
- 90 day arrears rates have increased to 0.7% (2011: 0.5%) while gross charge off rates have increased to 1.1% (2011: 0.6%).

Corporate

- Net lending to corporates of £3,311m (2011: £4,714m) with CRLs of £1,887m (2011: £2,073), impairment allowance of £1,060m (2011: £1,187m) and CRL coverage of 56% (2011: 57%). Balances on early warning lists peaked in November 2010. The portfolio is kept under close review and impairment recognised as appropriate;
- Net lending to the property and construction industry of £1,188m (2011: £1,866m) largely secured on real estate collateral, with CRLs of £1,429m (2011: £1,664m), impairment allowance of £820m (2011: £810m) and CRL coverage of 57% (2011: 49%);
- Corporate impairment in Spain was at its highest level during the first half of 2010 when commercial property declines were reflected earlier in the cycle; and
- £359m (2011: £488m) lending to multinational and large national corporates, which continues to perform.

Other retail lending

- £1,052m (2011: £1,115m) credit cards and unsecured loans. 30 days and 90 days arrears rates and charge off rates in credit cards and unsecured loans were broadly stable in 2012; and
- £1,045m (2011: £1,529m) lending to small and medium enterprises (SMEs), largely secured against residential or commercial property.

Italy (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Total	
As at 31 December	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Cash collateral £m	Net £m	Assets £m	2012 £m	2011 £m
Sovereign	2,178	(2,178)	-	1,702	(581)	-	1,121	2	1,123	1,144
Financial institutions	271	(85)	186	7,074	(5,341)	(1,733)	-	166	352	456
Corporate	282	(116)	166	477	(214)	(56)	207	326	699	171

Available for sale investments

Fair value through equity As at 31 December	Cost[a] £m	AFS reserve £m	2012 Total £m	2011 Total £m
Sovereign	1,509	28	1,537	2,334
Financial institutions	134	4	138	138
Corporate	27	2	29	27

Loans and advances

Held at amortised cost As at 31 December	Gross £m	Impairment allowances £m	2012 Total £m	2011 Total £m
Sovereign	9	-	9	15
Financial institutions	38	-	38	75
Residential mortgages	15,698	(107)	15,591	15,934
Corporate	1,354	(120)	1,234	2,720
Other retail lending	2,042	(106)	1,936	2,335

Contingent liabilities and commitments

As at 31 December	2012 £m	2011 £m
Financial institutions	90	17
Residential mortgages	45	101
Corporate	2,158	2,034
Other retail lending	789	988

Sovereign

– Predominantly £1,537m (2011: £2,334m) AFS government bonds with no impairment and £28m cumulative fair value gain (2011: £123m cumulative fair value loss) held in the AFS reserve.

Residential mortgages

– £15,591m (2011: £15,934m) secured on residential property with average valuation weighted marked to market LTVs of 46.7% (2011: 46.9%). CRL coverage of 23% (2011: 25%) remains stable; and

– 90 day arrears at 1.0% (2011: 1.0%) were stable; however gross charge off rates increased to 0.8% (2011: 0.5%).

Corporate

– £1,234m (2011: £2,720m) focused on large corporate clients with very limited exposure to property sector; and

– Balances in early warning lists were broadly stable since December 2011.

Other retail lending

– £1,337m (2011: £1,615m) Italian salary advance loans (repayment deducted at source by qualifying employers and Barclays is insured in the event of termination of employment or death). Arrears rates on salary loans improved during 2012 while charge-off rates deteriorated; and

– £434m (2011: £483m) credit cards and other unsecured loans. Arrears rates (both 30 and 90 days) and gross charge-off rates in cards and unsecured loans have improved in 2012.

Note

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

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Portugal (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Totals	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2012	2011
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	144	(136)	8	262	(262)	-	-	-	8	69
Financial institutions	22	(4)	18	295	(176)	(119)	-	-	18	11
Corporate	62	(16)	46	362	(151)	(5)	206	-	252	328

Available for sale investments

Fair value through equity	Cost[a]	AFS reserve	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	598	(4)	594	716
Financial institutions	2	-	2	2
Corporate	332	(1)	331	677

Loans and advances

Held at amortised cost	Gross	Impairment allowances	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	35	-	35	25
Financial institutions	28	-	28	38
Residential mortgages	3,505	(31)	3,474	3,651
Corporate	1,671	(296)	1,375	2,290
Other retail lending	1,985	(202)	1,783	2,053

Contingent liabilities and commitments

	2012	2011
As at 31 December	£m	£m
Sovereign	-	3
Financial institutions	1	3
Residential mortgages	25	52
Corporate	889	1,101
Other retail lending	1,673	1,377

Sovereign

– £637m (2011: £810m) largely AFS government bonds. No impairment and £4m (2011: £159m) cumulative fair value loss held in the AFS reserve.

Residential mortgages

– Secured on residential property with average balance weighted marked to market LTVs of 77.6% (2011: 69.6%). The higher LTV is reflected in a higher CRL coverage of 25% (2011: 14%); and

– 90 day arrears rates remained stable at 0.7% (2011: 0.6%) while recoveries impairment coverage improved to 25.6% (2011: 15.0%) driven by an increase in loss given default rates.

Corporate

– Net lending to corporates of £1,375m (2011: £2,290m), with CRLs of £501m (2011: £443m), impairment allowance of £296m (2011: £194m) and CRL coverage of 59% (2011: 44%); and

– Net lending to the property and construction industry of £364m (2011: £541m) secured, in part, against real estate collateral, with CRLs of £275m (2011: £277m), impairment allowance of £149m (2011: £107m) and CRL coverage of 54% (2011: 39%).

Other retail lending

– £950m (2011: £1,052m) credit cards and unsecured loans. During 2012, arrears rates in cards portfolio deteriorated while charge-off rates improved; and

– CRL coverage of 74% (2011: 78%) driven by credit cards and unsecured loans exposure.

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

Ireland (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Total	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2012	2011
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	35	(35)	-	-	-	-	-	2	2	39
Financial institutions	1,003	(32)	971	4,813	(3,828)	(985)	-	582	1,553	1,561
Corporate	170	(37)	133	386	(35)	(198)	153	7	293	52

Available for sale investments				
Fair value through equity	Cost[a]	AFS reserve	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	9	-	9	205
Financial institutions	63	(3)	60	249
Corporate	4	-	4	-

Loans and advances				
Held at amortised cost	Gross	Impairment allowances	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Financial institutions	2,309	(154)	2,155	2,501
Residential mortgages	122	(10)	112	94
Corporate	866	(36)	830	925
Other retail lending	83	-	83	86

Contingent liabilities and commitments		
	2012	2011
As at 31 December	£m	£m
Financial institutions[b]	628	702
Corporate	1,007	872
Other retail lending	9	8

Financial institutions

- Exposure focused on financial institutions with investment grade credit ratings;
- Exposure to Irish banks amounted to £102m (2011: £58m); and
- £1.4bn (2011: £1.3bn) of loans relate to issuers domiciled in Ireland whose principal business and exposures are outside of Ireland.

Corporate

- £830m (2011: £925m) net loans and advances, including a significant proportion to other multinational entities domiciled in Ireland, whose principal businesses and exposures are outside of Ireland; and
- The portfolio continues to perform and has not been impacted materially by the decline in the property sector.

Notes
a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.
b The comparative figure has been restated following the re-designation of counterparties from year end.

Risk review

Credit Risk

All disclosures in this section are audited unless otherwise stated

Cyprus (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Total	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2012	2011
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial institutions	-	-	-	102	(102)	-	-	-	-	-
Corporate	-	-	-	26	(8)	(6)	12	-	12	11

Loans and advances				
Held at amortised cost	Gross	Impairment allowances	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	8	-	8	15
Residential mortgages	44	-	44	51
Corporate	94	-	94	117
Other retail lending	26	-	26	2

Contingent liabilities and commitments		
	2012	2011
As at 31 December	£m	£m
Corporate	94	107
Other retail lending	37	20

Greece (audited)

Fair value through profit or loss	Trading portfolio			Derivatives				Designated at FV	Total	
	Assets	Liabilities	Net	Assets	Liabilities	Cash collateral	Net	Assets	2012	2011
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	3	(2)	1	-	-	-	-	-	1	8
Financial institutions	-	-	-	1,181	(231)	(950)	-	-	-	2
Corporate	3	-	3	-	-	-	-	-	3	3

Available for sale investments				
Fair value through equity	Cost[a]	AFS reserve	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Sovereign	-	-	-	6

Loans and advances				
Held at amortised cost	Gross	Impairment allowances	2012 Total	2011 Total
As at 31 December	£m	£m	£m	£m
Residential mortgages	8	-	8	5
Corporate	58	-	58	64
Other retail lending	22	(13)	9	18

Contingent liabilities and commitments		
	2012	2011
As at 31 December	£m	£m
Financial institutions	-	1
Corporate	3	3
Other retail lending	2	22

Note

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

Risk review
Credit Risk

All disclosures in this section are audited unless otherwise stated

Analysis of indirect exposures

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

Credit derivatives referencing sovereign debt

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

	Spain £m	Italy £m	Portugal £m	Ireland £m	Cyprus £m	Greece £m
As at 31 December 2012						
Fair value						
- Bought	656	1,092	337	84	1	-
- Sold	(640)	(1,026)	(327)	(94)	(1)	-
Net derivative fair value	16	66	10	(10)	-	-
Contract notional amount						
- Bought	(11,840)	(18,008)	(3,535)	(3,220)	(7)	-
- Sold	11,702	17,635	3,437	3,274	7	-
Net derivative notional amount	(138)	(373)	(98)	54	-	-
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(122)	(307)	(88)	44	-	-
As at 31 December 2011						
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(157)	(374)	(26)	(49)	-	19

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

	Spain £m	Italy £m	Portugal £m	Ireland £m	Cyprus £m	Greece £m
As at 31 December 2012						
Fair value						
- Bought	165	289	119	33	1	-
- Sold	(149)	(223)	(109)	(43)	(1)	-
Net derivative fair value	16	66	10	(10)	-	-
Contract notional amount						
- Bought	(2,550)	(3,943)	(1,118)	(1,006)	(4)	
- Sold	2,412	3,570	1,020	1,060	4	
Net derivative notional amount	(138)	(373)	(98)	54	-	-
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(122)	(307)	(88)	44	-	-
As at 31 December 2011						
Net protection from credit derivatives in the event of sovereign default (notional less fair value)	(157)	(374)	(26)	(49)	-	19

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

In addition, the Group has indirect sovereign exposure through the guarantee of certain savings and investment funds, which hold a proportion of their assets in sovereign debt. As at 31 December 2012, the net liability in respect of these guarantees was £33m (31 December 2011: £41m).

Exposure to Eurozone Residential Property Sector

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

Falls in property prices have led to higher credit risk and higher impairment charges. The 2012 impairment charge to our residential mortgage book in Spain was £72m (2011: £38m) and in Portugal was £24m (2011: £9m). These increases were principally driven by:

i) Negative house price movements: this has reduced market demand and also mortgage supply with the result that a customers' ability to sell has reduced and the likelihood of repossessions has increased. Impairment charges have risen, given a loss event as the loss on default has increased due to lower amounts realised from the sale of properties in a distressed market; and
ii) Customers' behaviour and a reduced willingness to pay as a result of their perception of a lower equity stake.

Eurozone Balance Sheet Redenomination Risk

Redenomination risk is the risk of financial loss to the Group should one or more countries exit the Euro, leading to a potentially different valuation of local balance sheet assets and liabilities. The Group is directly exposed to redenomination risk where there could be a different value for locally denominated assets and liabilities.

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

During 2012, a series of mitigating actions was taken to reduce local net funding mismatches primarily by raising local liabilities in Spain, Portugal and Italy. These actions included the drawdown of €8.2bn in the European Central Bank's three year Long Term Refinancing Operation (LTRO) in Spain and Portugal. As a result of these mitigating actions the Group reduced the aggregate net funding mismatch in local balance sheets from £12.1bn to a £1.9bn surplus in Spain, from £6.9bn to £3.3bn in Portugal and from £12.0bn to £9.6bn in Italy.

Barclays continues to monitor the potential impact of the Eurozone volatility on local balance sheet funding and will consider actions as appropriate to manage the risk. Direct exposure to Greece is very small with negligible net funding required from Group. For Ireland there is no local balance sheet funding requirement by the Group as total liabilities in this country exceed total assets.

Risk review

Market risk

All disclosures in this section are unaudited unless otherwise stated

Market risk is the risk of the Group's earnings or capital being reduced due to volatility of trading book positions or an inability to hedge the banking book balance sheet.

Analysis of traded market risk exposures

Following a volatile beginning to the year, markets steadily improved through the second half of the year with momentum gaining in Q4, even as some wider concerns persisted. Investment Bank's focus on market risk exposures centred on limiting illiquid risk exposures when possible. Primary risk metrics showed a fall in market risk from 2011 levels.

The three main contributors to total DVaR were credit, spread and interest rate risk. From 2011 levels, average credit risk DVaR fell by £3m (10%), spread DVaR fell by £2m (8%) and interest rate DVaR fell by £3m (18%). Total management DVaR fell by £19m (33%) reflecting the sharp reduction in the DVaR measure.

Tail risk measures also indicate a similar decline in risk profile, with a particularly sharp fall in 3W. However, some of this decline can be attributed to the rolling of the time period within the historical simulation.

The daily average, maximum and minimum values of DVaR, Expected Shortfall and 3W (audited):	Year ended 31 December 2012			Year ended 31 December 2011		
DVaR (95%)	Average £m	High[a] £m	Low[a] £m	Average £m	High[a] £m	Low[a] £m
Credit risk	26	44	18	29	48	17
Spread risk	23	31	17	25	40	17
Interest rate risk	14	23	7	17	48	8
Basis risk	11	21	5	6	6	6
Equity risk	9	19	4	18	34	9
Commodity risk	6	9	4	12	18	7
Foreign exchange risk	6	10	2	5	8	2
Inflation risk	3	7	2	4	9	2
Diversification effect[b]	(60)	na	na	(54)	na	na
Total DVaR	38	75	27	57	88	33
Expected Shortfall[c]	47	91	30	71	113	43
3W[d]	77	138	44	121	202	67

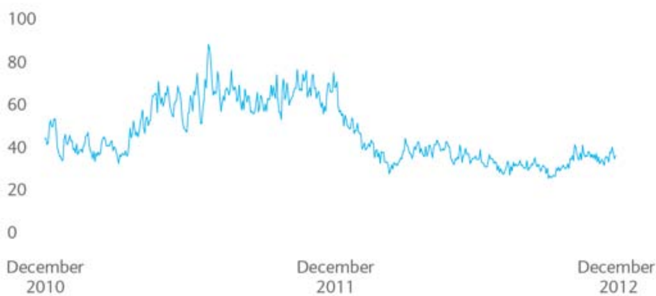
- Interest rate risk measures the impact of changes in interest (swap) rates and volatilities on cash instruments and derivatives;
- Inflation risk measures the impact of changes in inflation rates and volatilities on cash instruments and derivatives;
- Spread risk measures the impact of changes to the swap spread, i.e. the difference between swap rates and government bond yields;
- Credit risk measures the impact of changes to the credit spread of credit risky sovereign bonds, corporate bonds, securitised products or credit derivatives such as Credit Default swaps;
- Basis risk measures the impact of changes in Interest rate tenor basis (e.g. the basis between swaps vs. 3M LIBOR and swaps vs. 6M LIBOR) and cross currency basis;
- Foreign exchange risk measures the impact of changes in foreign exchange rates and volatilities. Equity risk measures the impact of changes in equity prices, volatilities and dividend yields;
- Commodity risk measures the impact of changes in commodity prices and volatilities, including the basis between related commodities; and
- Diversification effect reflects the fact the risk of a diversified portfolio is smaller than the sum of the risks of its constituent parts. It is measured as the sum of the individual asset class DVaR estimates less the total DVaR.

The Bank

Investment Bank's market risk exposure, as measured by average total DVaR of 95%, decreased by 32% to £38m (2011: £56m). The high for the year was £75m (2011: £86m) and the low for the year was £27m (2011: £34m).

Notes
a The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high and low DVaR reported as a whole. Consequently a diversification effect balance for the igh and low DVaR figures would not be meaningfuland is therefore omitted from the above table.
b Diversification for 2011 has been restated to increase granularity by reporting DVaR asset class, primarily relating to credit and inflation, which were applied for the whole period, and basis VaR, which was introduced in 2011 resulting in its partial contribution to average diversification.
c The average of all one day hypothetical losses beyond the 95% confidence level DVaR.
d The average of the three largest one day estimated losses.

Investment Bank management DVaR



Management DVaR fell sharply early in 2012 from levels seen in 2011. For the remainder of the year, DVaR remained relatively stable but at lower levels than seen in recent years. VaR based tail measures such as Expected Shortfall and 3W also saw sharp falls from 2011.

Analysis of trading revenue (audited)

The histogram below shows the distribution of daily trading revenue for the Investment Bank in 2012 and 2011. Trading revenue excludes income from Private Equity and Principal Investments.

The average daily revenue at the Investment Bank in 2012 was £46m, up 11% from 2011. There were more positive trading revenue days in 2012 than in 2011, with 88% of days generating positive trading revenue compared to 80% in 2011. The second half of 2012 was much stronger than in 2011.

Investment Bank daily trading revenue

Analysis of stress testing

Stress tests and scenario analysis also indicate a fall in market risk levels from 2011, in line with the trend in DVaR. Combined stress scenarios show that a sharp and rapid slowdown in global economic activity is the largest threat to the trading exposures. The scenario assumes an extreme and instant sell off across all risky assets coupled with a contraction in credit, and limited gains in safe havens. The calculation assumes an instant shock to positions, without any opportunity to hedge immediately, and assumes an appropriate holding period where the firm may be unable to unwind its trading positions.

Risk review
Market risk

All disclosures in this section are unaudited unless otherwise stated

Non-traded market risk (audited)

Non-traded interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, when the interest rate repricing date for loans (assets) is different to the repricing date for deposits (liabilities). This includes current accounts and equity balances which do not have a defined maturity date and an interest rate that does not change in line with Base rate changes. The risk resides mainly in Retail and Business Banking, Corporate Banking and Group Treasury. Barclays objective is to minimise non-traded interest rate risk and this is achieved by transferring interest rate risk from the business to a local or Group Treasury, which in turn hedges the net exposure via Investment Bank with the external market. Limits exist to ensure no material risk is retained within any business or product area. Trading activity is not permitted outside Investment Bank.

Risk measurement
The risk in each business is measured and controlled using both an income metric (Annual Earnings at Risk) and value metrics (Economic Value of Equity, Economic Capital, DVaR, risk factor stress testing, scenario stress testing).

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income over the next 12-month period. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a parallel increase or decrease in interest rates, subject to a minimum interest rate of 0%.

The main model assumptions are:

- The balance sheet is kept at the current level i.e. no growth is assumed; and
- Balances are adjusted for an assumed behavioural profile. This includes the treatment of fixed rate loans including mortgages.

Economic Value of Equity (EVE) calculates the change in the present value of the banking book for a parallel upward and downward rate shock. This calculation is a present value sensitivity while AEaR is an income sensitivity.

Economic Capital (EC) consistent models are used to measure: recruitment risk, the risk from customers not taking up their fixed rate loan offer; and prepayment risk, the risk of a customer deciding not to carry on with their fixed rate loan. Behavioural profiles are also used when modelling the balance sheet.

A combination of DVaR, stress limits, net open position and specific currency or tenor limits are in place for all local Treasury activities.

Risk control
Non-traded market risk is controlled through the use of limits on the above risk measures. Limits are set at the total business level and then cascaded down. The total business level limits for AEaR, EVE, EC, DVaR and stress are agreed by the Group Market Risk Committee. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

The interest rate risk for balances with no defined maturity date and an interest rate that is not linked to the base rate is managed by Group Treasury. A series of continuous rolling hedges are used to mitigate the interest rate risk in the banking book.

Risk reporting
Each business area is responsible for their respective market risk reports. A combination of daily and monthly risk reports are produced and used by the business. These are also sent to Group Market Risk for review and inclusion in the Group Daily Market Risk Report. A risk summary is also presented at Market Risk Committee and respective Asset and Liability Committees.

Analysis of net interest income sensitivity
The table below shows sensitivity analysis on the pre-tax net interest income for the non-trading financial assets and financial liabilities held at 31 December 2012 and 31 December 2011. The sensitivity has been measured using AEaR methodology as described above. The benchmark interest rate for each currency is set as at 31 December 2012. The figures include the effect of hedging instruments but exclude banking book exposures held or issued by the Investment Bank as these are measured and managed using DVaR.

Net interest income sensitivity (AEaR) by currency (audited)	31 December 2012		31 December 2011	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
The Group	£m	£m	£m	£m
GBP	96	(273)	68	(321)
USD	30	(23)	(9)	(11)
EUR	20	(49)	(41)	(5)
ZAR	27	(25)	31	(29)
Others	9	(4)	14	(5)
Total	182	(374)	63	(371)
As percentage of net interest income	1.56%	(3.21%)	0.52%	(3.04%)

Non-traded interest rate risk, as measured by AEaR, was £374m as at 31 December 2012, an increase of £3m compared to 31 December 2011. The increase in risk reflects an increase in the Group equity balances and associated hedges, partly offset by reduction in the margin compression in the retail bank. AEaR is measured for a reduction in rates for the purposes of this analysis.

Net Interest Income Sensitivity (AEaR) by currency (audited)	31 December 2012		31 December 2011	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
The Bank	£m	£m	£m	£m
GBP	60	(172)	41	(194)
USD	19	(14)	(5)	(7)
EUR	13	(31)	(25)	(3)
ZAR	17	(16)	19	(18)
Others	6	(3)	8	(3)
Total	115	(236)	38	(225)
As percentage of net interest income	1.57%	(3.22%)	0.52%	(3.05%)

Risk review
Market risk

All disclosures in this section are unaudited unless otherwise stated

Analysis of equity sensitivity

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

Analysis of equity sensitivity (audited)	31 December 2012		31 December 2011	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
The Group	£m	£m	£m	£m
Net interest income	182	(374)	63	(371)
Taxation effects on the above	(51)	105	(20)	120
Effect on profit for the year	**131**	**(269)**	**43**	**(251)**
As percentage of net profit after tax	**(34.11%)**	**70.05%**	**1.06%**	**(6.20%)**
Effect on profit for the year (per above)	131	(269)	43	(251)
Available for sale reserve	(674)	674	(1,108)	1,102
Cash flow hedge reserve	(2,179)	2,260	(2,248)	2,280
Taxation effects on the above	799	(822)	1,083	(1,091)
Effect on equity	**(1,923)**	**1,843**	**(2,230)**	**2,040**
As percentage of equity	**(3.06%)**	**2.93%**	**3.42%**	**3.13%**

Analysis of equity sensitivity (audited)	31 December 2012		31 December 2011	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
The Bank	£m	£m	£m	£m
Net interest income	115	(236)	38	(225)
Taxation effects on the above	(32)	66	(10)	61
Effect on profit for the year	**83**	**(170)**	**28**	**(164)**
As percentage of net profit after tax	**3.05%**	**(6.25%)**	**1.40%**	**(8.22%)**
Effect on profit for the year (per above)	83	(170)	28	(164)
Available for sale reserve	(566)	566	(983)	977
Cash flow hedge reserve	(2,054)	2,134	(2,119)	2,151
Taxation effects on the above	733	(755)	843	(850)
Effect on equity	**(1,804)**	**1,775**	**(2,231)**	**2,114**
As percentage of equity	**(3.78%)**	**3.72%**	**(4.40%)**	**4.16%**

Foreign exchange risk (audited)

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

a) Transactional foreign currency exposure

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

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

There were no material net transactional foreign currency exposures outside the trading portfolio at either 31 December 2012 or 2011. Due to the low level of non-trading exposures no reasonably possible change in foreign exchange rates would have a material effect on either the Group's profit or movements in equity for either of the years ended 31 December 2012 or 2011.

b) Translational foreign exchange exposure

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

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

During 2012, total structural currency exposures net of hedging instruments decreased from £16.7bn to £16.3bn, as a result of hedging decisions taken in accordance with the Group's capital ratio management strategy for foreign exchange rate movements.

The economic hedges primarily represent the US Dollar and Euro preference shares and reserve capital instruments in issue that are treated as equity under IFRS, and do not qualify as hedges for accounting purposes.

Functional currency of operations (audited)

	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Structural currency exposures pre economic hedges £m	Economic hedges £m	Remaining structural currency exposures £m
As at 31 December 2012						
US Dollar	**35,280**	**6,251**	**13,861**	**15,168**	**4,822**	**10,346**
Euro	**5,369**	**1,494**	**1,990**	**1,885**	**1,951**	**(66)**
Rand	**4,048**	**-**	**131**	**3,917**	**-**	**3,917**
Japanese Yen	**597**	**175**	**407**	**15**	**-**	**15**
Other	**3,084**	**-**	**1,027**	**2,057**	**-**	**2,057**
Total	**48,378**	**7,920**	**17,416**	**23,042**	**6,773**	**16,269**
As at 31 December 2011						
US Dollar	30,335	7,217	8,094	15,024	5,072	9,952
Euro	6,568	4,096	280	2,192	2,017	175
Rand	4,258	-	-	4,258	-	4,258
Japanese Yen	681	293	336	52	-	52
Other	3,144	-	930	2,214	-	2,214
Total	44,986	11,606	9,640	23,740	7,089	16,651

Risk review
Funding risk - Capital

All disclosures in this section are unaudited unless otherwise stated

Overview

Barclays operates a centralised capital management model, considering both regulatory and economic capital. The capital management strategy is to continue to maximise shareholder value through optimising both the level and mix of capital resources. Decisions on the allocation of capital resources are conducted as part of the strategic planning review. The Group's capital management objectives are to:

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the FSA and the US Federal Reserve Bank's requirements that a financial holding company be well capitalised;
- Maintain sufficient capital resources to support the Group's risk appetite and economic capital requirements;
- Support the Group's credit rating;
- Ensure locally regulated subsidiaries can meet their minimum capital requirements; and
- Allocate capital to businesses to support the Group's strategic objectives, including optimising returns on economic and regulatory capital.

External Regulatory Capital Requirements

The Group is subject to minimum capital requirements imposed by the Financial Services Authority (FSA), following guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented in the UK via European Union Directives.

Under Basel 2, effective from 1 January 2008, the Group has approval by the FSA to use the advanced approaches to credit and operational risk management. Pillar 1 capital requirements are generated using the Group's risk models.

Under Pillar 2 of Basel 2, the Group is subject to an overall regulatory capital requirement based on individual capital guidance ('ICG') received from the FSA. The ICG imposes additional capital requirements in excess of Pillar 1 minimum capital requirements.

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Japanese FSA and the Monetary Authority of Singapore); Africa, where the Group's operations are headquartered in Johannesburg, South Africa (The South African Reserve Bank and the Financial Services Board (FSB)) and the United States of America (the Board of Governors of the Federal Reserve System (FRB) and the Securities and Exchange Commission).

Local entity regulatory capital adequacy

The Group manages its capital resources to ensure that those Group entities that are subject to local capital adequacy regulation in individual countries meet their minimum capital requirements. The current policy of the Group is that the local capital requirements are met, to the greatest possible extent, through the retention of profit. Certain countries also operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. Local management manages compliance with subsidiary entity minimum regulatory capital requirements with reporting to local Asset and Liability Committees and to Treasury Committee, as required.

Injections of capital resources into Group entities are centrally controlled by the Group Treasury Committee, under authorities delegated from the Group Executive Committee. The Group's policy is for surplus capital held in Group entities to be repatriated to Barclays Bank PLC in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and tax implications.

Other than as indicated above, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intragroup liabilities when due.

Regulatory Capital

The table below provides details of the regulatory capital resources managed by the Group.

	Barclays PLC Group 2012 £m	Barclay Bank PLC Group 2012 £m	Barclays PLC Group 2011 £m	Barclay Bank PLC Group 2011 £m
Core Tier 1 capital	**42,121**	**42,059**	43,066	43,040
Tier 1 capital	**51,634**	**51,560**	50,473	50,447
Tier 2 capital	**16,118**	**16,106**	16,063	16,063
Deductions from total capital	**(1,689)**	**(1,689)**	(2,588)	(2,588)
Total capital resources	**66,063**	**65,977**	63,948	63,922

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

Key capital ratios As at 31 December	2012	2011
Core Tier 1	10.9%	11.0%
Tier 1	13.3%	12.9%
Total capital	17.1%	16.4%

Capital Resources (audited) As at 31 December	£m 2012	£m 2011
Shareholders' equity (excluding non-controlling interests) per balance sheet	53,586	55,589
Own credit cumulative loss/(gain)[a]	804	(2,680)
Unrealised (gains)/losses on available for sale debt securities[a,b]	(417)	803
Unrealised gains on available for sale equity (recognised as Tier 2 capital) [a]	(110)	(828)
Cash flow hedging reserve [a]	(2,099)	(1,442)
Non-controlling interests per balance sheet	9,371	9,607
- Less: Other Tier 1 capital - preference shares	(6,203)	(6,235)
- Less: Non-controlling Tier 2 capital	(547)	(573)
Other regulatory adjustments to non-controlling interests	(171)	(138)
Other regulatory adjustments and deductions:		
Defined benefit pension adjustment [a]	(2,445)	(1,241)
Goodwill and intangible assets [a]	(7,622)	(7,560)
50% excess of expected losses over impairment [a]	(648)	(506)
50% of securitisation positions	(1,206)	(1,577)
Other regulatory adjustments[b]	(172)	(153)
Core Tier 1 capital	42,121	43,066
Other Tier 1 capital:		
Preference shares	6,203	6,235
Tier 1 notes [c]	509	530
Reserve Capital Instruments	2,866	2,895
Regulatory adjustments and deductions:		
50% of material holdings	(241)	(2,382)
50% of the tax on excess of expected losses over impairment	176	129
Total Tier 1 capital	51,634	50,473
Tier 2 capital:		
Undated subordinated liabilities	1,625	1,657
Dated subordinated liabilities	14,066	15,189
Non-controlling Tier 2 capital	547	573
Reserves arising on revaluation of property [a]	39	25
Unrealised gains on available for sale equity [a]	110	828
Collectively assessed impairment allowances	2,002	2,385
Tier 2 deductions:		
50% of material holdings	(241)	(2,382)
50% excess of expected losses over impairment (gross of tax)	(824)	(635)
50% of securitisation positions	(1,206)	(1,577)
Total capital regulatory adjustments and deductions:		
Investments that are not material holdings or qualifying holdings	(1,139)	(1,991)
Other deductions from total capital	(550)	(597)
Total regulatory capital	66,063	63,948

Notes
a The capital impacts of these items are net of tax.
b Available for sale reserves for debt securities has been revised to include the adjustment for the scope of regulatory consolidation previously disclosed in other regulatory adjustments.
c Tier 1 notes are included in subordinated liabilities in the consolidated balance sheet.

Risk review
Funding risk - Capital

All disclosures in this section are unaudited unless otherwise stated

Impact of Basel 3

The new capital requirements regulation and capital requirements directive that implement Basel 3 proposals within the EU (collectively known as CRD IV) are still under consideration. The requirements are expected to be finalised during 2013, however the implementation date is uncertain. The requirements for Barclays Bank PLC Group will be in line with Barclays PLC Group, the details of which are shown below:

– CRD IV includes the requirement for a minimum Common Equity Tier 1 (CET1) ratio of 4.5%, a minimum Tier 1 ratio of 6% and a minimum Total capital ratio of 8%. An additional Capital Conservation buffer (CCB) of 2.5% and Counter-Cyclical Capital buffer (CCCB) of up to 2.5% to be applied when macroeconomic conditions indicate areas of the economy are over-heating. Our working assumption is that the CCCB would be zero if implemented today;

– In addition, globally systemically important banks are expected to hold a buffer of up to 2.5%. For Barclays, this was confirmed in November 2012 by the Financial Stability Board (FSB) to be 2.0% resulting in an expected regulatory target CET1 ratio of 9.0%. This regulatory target capital requirement will phase in between adoption of CRD IV and 2019;

– The proposed changes to the definition of CET1 also include transitional provisions relating to capital deductions and grandfathering of ineligible capital instruments that are in line with the FSAs statement on CRD IV transitional provisions in October 2012;

– Given the phasing of both capital requirements and target levels, in advance of needing to comply with the fully loaded end state requirements Barclays will have the opportunity to continue to generate additional capital from earnings and take management actions to mitigate the impact of CRD IV. Our expectation is that ineligible Additional Tier 1 capital, which qualifies for grandfathering under the transitional relief, will be replaced with eligible capital over time;

– To provide an indication of the potential impact on Barclays, we have estimated our pro forma RWAs and CET1 ratio on both a transitional and fully loaded basis, reflecting our current interpretation of the rules and assuming they were applied as at 1 January 2013. As at that date, Barclays pro forma RWAs on a CRD IV basis would have been estimated at approximately £468bn, with a resultant transitional CET1 ratio of approximately 10.6% and a fully loaded CET1 ratio of approximately 8.2%;

– Based on our estimated proforma capital ratios, identified actions and retained earnings, we expect to be in excess of the minimum capital requirements as they are expected to apply over the transitional period and through to the end state position;

– The Basel 3 guidelines include a proposed leverage metric to be implemented by national supervisors initially under a parallel run for disclosure purposes only, and migrating to a mandatory limit over a period of 5 years. Based on our interpretation of the current proposals, the Group's CRD IV leverage ratio as at 31 December 2012 would be within the proposed limit of 33x, allowing for transitional relief to Tier 1 capital;

– The actual impact of CRD IV on capital ratios may be materially different as the requirements and related technical standards have not yet been finalised, for example provisions relating to the scope of application of the CVA volatility charge and restrictions on short hedges relating to insignificant financial holdings. The actual impact will also be dependent on required regulatory approvals, market conditions at the point of implementation and the extent to which further management action is taken prior to implementation.

Estimated impact of CRD IV		Proforma CET1 Transitional	Proforma CET1 Fully-loaded
	As at 31 December 2012	As at 1 January 2013	As at 1 January 2013
	£bn	£bn	£bn
Core Tier 1 (CT1) capital (FSA 2009 definition)	42.1	42.1	42.1
IFRS10 impact (introduced on 1 Jan 2013)		(0.4)	(0.4)
CT1 capital post-IFRS 10 (FSA 2009 definition)		41.7	41.7
Risk Weighted Assets (RWA) (current Basel 2.5 rules)	387	387	387
CT1 ratio (Basel 2.5)	10.9%	10.8%	10.8%
CRD IV impact on CT1 capital:			
Adjustments not impacted by transitional provisions			
Conversion from securitisation deductions to RWA		1.0	1.0
Prudential Valuation Adjustment (PVA)		(1.2)	(1.2)
Other		(0.2)	(0.2)
Adjustments impacted by transitional provisions			
Goodwill and intangibles		7.6	-
EL > impairment		0.6	(1.1)
Deferred tax assets (losses)		(0.1)	(1.3)
Excess minority interest		-	(0.9)
Debit Valuation Adjustment (DVA)		-	(0.3)
Pensions		-	(0.1)
Gains on AFS equity and debt		-	0.7
Common Equity Tier 1 (CET1) capital		49.5	38.4
RWAs (post CRD IV)		468	468
CET1 ratio		10.6%	8.2%

Basis of calculation of the impact of CRD IV

CRD IV, models and waivers

- The proforma ratios, capital computations and RWAs are based on our interpretation of the draft July 2011 CRD IV rules and best expectation of how these draft rules will be updated for subsequent Basel announcements and EU discussions. They assume that all items in the Internal Model Method application to the FSA are approved, and existing FSA waivers, where such discretion is available under CRD IV, will continue.

Capital resources

- Proforma capital numbers at 1 January 2013 are based on 31 December 2012 actuals with an adjustment for IFRS 10 impact (as a result of consolidating some entities that were not previously consolidated and deconsolidating some entities that were previously consolidated);
- Transitional common equity tier 1 capital is based on application of the CRD IV transitional provisions and FSA guidance dated 26 October 2012 setting out the minimum pace of transitions with certain exceptions set out in the guidance. In line with this guidance deferred tax assets deduction is assumed to transition in at 10% in 2013. Other deductions (including goodwill and intangibles, expected losses over impairment and Debit Valuation Adjustment (DVA)) transition in at 0% in 2013, 20% in 2014, 40% in 2015 and so on;
- Prudent Valuation Adjustment (PVA) was previously assumed to be subject to transitional treatment. Following FSA guidance, the impact of PVA is now factored into CET1 on inception in full. PVA is subject to final rules to be agreed by the EBA and the impact is currently based on methodology agreed with the FSA;
- The draft July 2011 CRD IV rules include the implementation of a capital deduction for financial holdings greater than 10% of CET1 capital, which under Basel 2.5 are subject to equity market risk capital requirements. The Group holds £107bn of financial holdings, which under current regulatory rules net down to £3.3bn exposure after allowing for permitted economic hedging. The current draft of the CRD IV rules applies a further restriction, where the maturity of the hedging instrument is less than one year, which would result in a higher net position of approximately £10.1bn. This would be in excess of the 10% of our CET1 and would result in a capital deduction on a fully loaded basis of approximately £4.6bn at CET1 level and a further deduction of approximately £1.4bn at total capital level. However, we have identified management actions that would be taken in the event that the CRD IV draft requirements remain unchanged, and as a result we are highly confident that no capital deduction would be required; and
- Excess minority interest has been calculated on a CRD IV basis and included in our full impact capital base on the assumption that supervisory regimes outside the EU that are implementing Basel 3, and are currently considered equivalent supervisory and regulatory regimes, will continue to be considered equivalent regimes under CRD IV.

Risk review
Funding risk - Capital

All disclosures in this section are unaudited unless otherwise stated

Risk Weighted Assets

- It is assumed that EU corporates, pension funds and sovereigns are exempt from CVA volatility charge;
- It is assumed all CCPs will implement CPSS-IOSCO's 'Principles for Financial Market Infrastructures' and hence will be deemed to be 'Qualifying'. The final determination of Qualifying status will be made by the appropriate Regulatory Authority;
- The proforma RWA increase from Basel 3 includes 1250% risk weighting of securitisation positions while proforma capital includes add back of Basel 2 50/50 securitisation deductions;
- Proforma RWAs for definition of default assume that national discretion over 180 days definition of default remains for UK retail mortgages;
- 'Other' CRD IV impact to RWAs include adjustments for withdrawal of national discretion of definition of default relating to non UK mortgage retail portfolios (£1.4bn), Deferred Tax Assets (£2.3bn), Material Holdings (£2.3bn), other counterparty credit risk (£6.4bn) and other items;
- RWAs are sensitive to market conditions. Pro forma impact on RWAs for all periods reflects market conditions as at 31 December 2012.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Liquidity risk is the failure to meet obligations leading to an inability to support normal business activity and to meet liquidity regulatory requirements

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

Liquidity risk is managed separately at Absa Group due to local currency and funding requirements. Unless stated otherwise, all disclosures in this section exclude Absa. For details of liquidity risk management at Absa, see page 88.

For further detail on liquidity risk governance and framework see page 72-73.

Liquidity risk stress testing

Under the Liquidity Framework, the Group has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Liquidity Risk Appetite

As part of the LRA, the Group runs three primary liquidity stress scenarios, aligned to the FSA's prescribed stresses:

- a three month market-wide stress event;
- a one month Barclays-specific stress event; and
- a combined one-month market-wide and Barclays-specific stress event.

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

Liquidity Risk Management Overview (audited)

Liquidity risk is the failure to meet obligations leading to an inability to support normal business activity and to meet liquidity regulatory requirements. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs.

This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in:

- An inability to support normal business activity; and
- A failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

In addition, the introduction of capital controls or new currencies by countries to mitigate current stresses could have a consequential effect on performance of the balance sheets of certain Group companies based on the asset quality, types of collateral and mix of liabilities.

The efficient management of liquidity is essential to the Group in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- To maintain market confidence in the Group's name;
- To set limits to control liquidity risk within and across lines of business and legal entities;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- To maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Governance and organisation

Barclays Treasury operates a centralised governance control process that covers all of the Group's liquidity risk management activities. The Barclays Treasurer is responsible for designing the Group Liquidity Risk Management framework (the Liquidity Framework) which is sanctioned by the Board Risk Committee (BRC). The Liquidity Framework incorporates liquidity policies, systems and controls that the Group has implemented to manage liquidity risk within tolerances approved by the Board and regulatory agencies. The Board sets the Group's Liquidity Risk Appetite (LRA), being the level of risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. The Treasury Committee is responsible for the management and governance of the mandate defined by the Board and includes the following sub-committees:

- The Group Funding and Liquidity Management Committee is responsible for the review, challenge and approval of the Liquidity Framework. The Liquidity Framework is reviewed regularly at Treasury Committee and BRC;
- The Group Asset and Liability Management Committee oversees the management and governance of asset and liability management including behavioural mismatch, structural risk and transfer pricing; and
- The Investment Advisory Group supervises the investment of a portion of the Group liquidity pool in longer-dated liquid assets. The Investment Advisory Group approves a detailed allocation framework across assets and tenors, and reviews the performance and risks associated with these holdings. The holdings are subject to limits set by the BRC and by the independent Group market and credit risk functions.

Liquidity is recognised as a key risk and the Barclays Treasurer is the Group Key Risk owner, supported by Key Risk Owners at regional and country levels. Execution of the Group's liquidity risk management strategy is carried out at country level, with the country Key Risk Owners providing reports to Barclays Treasury to evidence conformance with the agreed risk profile. Further oversight is provided by country, regional and business level committees.

Governance and organisation

Ongoing business management

Liquidity risk framework

Barclays has a comprehensive Liquidity Framework for managing the Group's liquidity risk. The Liquidity Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite set by the Board.

The Liquidity Framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Group's balance sheet and contingent liabilities. Limit setting and transfer pricing are tools that are designed to control the level of liquidity risk taken and drive the appropriate mix of funds, which together reduce the likelihood that a liquidity stress event could lead to an inability to meet the Group's obligations as they fall due. The stress tests assess potential contractual and contingent stress outflows under a range of scenarios, which are then used to determine the size of the liquidity pool that is immediately available to meet anticipated outflows if a stress occurred.

In addition the Group maintains a Contingency Funding Plan which details how liquidity stress events of varying severity would be managed. Since the precise nature of any stress event can not be known in advance, the plans are designed to be flexible to the nature and severity of the stress event and provide a menu of options that could be used as appropriate at the time. Barclays also maintains Recovery Plans which consider actions to generate additional liquidity in order to facilitate recovery in a severe stress. The Group submitted its first formal Recovery and Resolution submissions to the UK and the US regulators in mid 2012 and has since continued to work with the authorities to identify and address any impediments to resolvability. The overall framework therefore provides the necessary tools to manage the continuum of liquidity risk, as summarised above.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Ongoing business management

Liquidity Limits

Barclays manages limits on a variety of on and off-balance sheet exposures, a sample of which are shown in the table below. These limits serve to control the overall extent and composition of liquidity risk taken by managing exposure to particular sources of liabilities, asset liability mismatches and counterparty concentrations. Barclays also limits activities permitted at a country level. Businesses are only allowed to have funding exposure to wholesale markets where they can demonstrate that their market is sufficiently deep and liquid and then only relative to the size and complexity of their business.

Internal Pricing and Incentives

Barclays actively manages the composition and duration of the balance sheet and of contingent liabilities through the transfer of liquidity premium directly to business units. Liquidity premiums are charged and credited to businesses according to the behavioural life of assets and liabilities and contingent risk. These transfer pricing mechanisms are designed to ensure that liquidity risk is reflected in product pricing and performance measurement, thereby ensuring that the Liquidity Framework is integrated into business level decision making to drive the appropriate mix of sources and uses of funds.

Early Warning Indicators

Barclays monitors a range of market indicators for early signs of liquidity risk either in the market or specific to Barclays, a sample of which are shown in the table below. Additionally country and business level Asset and Liability Committees monitor early warning indicators appropriate to their businesses. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions. A deterioration in Early Warning Indicators can lead to invocation of the Group's Contingency Funding Plan, which provides a framework for how the liquidity stress would be managed.

Risk Appetite and Planning

Regulatory requirements are complied with at the Group and entity level, with the Liquidity Risk Appetite (LRA) providing a consistent Group wide perspective that supplements these requirements. Under the Liquidity Framework, the Group has established the LRA, which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to the liquidity pool compared to anticipated stressed net contractual and contingent outflows for each of three stress scenarios.

The stress outflows are used to determine the size of the Group Liquidity Pool, which represents those resources immediately available to meet outflows in a stress. In addition to the liquidity pool, the Liquidity Framework provides for other management actions, including generating liquidity from other liquid assets on the Group's balance sheet in order to meet additional stress outflows, or to preserve or restore the Liquidity Pool in the event of a liquidity stress.

Contingency Funding Plan and Recovery Resolution Plan

Barclays maintains a Contingency Funding Plan (CFP), which is designed to provide a framework where a liquidity stress could be effectively managed. The CFP is proportionate to the nature, scale and complexity of the business and is tested to ensure that it is operationally robust. The CFP details the circumstances in which the plan could be invoked, including as a result of adverse movements in Early Warning Indicators. As part of the plan the Barclays Treasurer has established a Liquidity Management Committee (LMC.) On invocation of the CFP, the LMC would meet to identify the likely impact of the event on the Group and determine the response, which would be proportionate to the nature and severity of the stress.

The CFP provides a communication plan and includes management actions to respond to liquidity stresses of varying severity. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

The Group continues to work with the authorities on recovery and resolution planning (RRP). The Group made its first formal RRP submissions to the UK and US regulators in mid-2012 and has since continued to work with the authorities to identify and address any impediments to resolvability.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Key LRA assumptions include:

Liquidity risk driver	Barclays specific stress
Net wholesale funding outflow	- Outflows at contractual maturity of wholesale funding and conduit commercial paper, with no rollover/ new issuance; and - Prime Brokerage: 100% loss of excess client derivative margin and 100% loss of excess client cash.
Loss of secured financing and increased haircuts	- Loss of repo capacity at contractual maturity date and incremental haircut widening, depending upon collateral type.
Retail and commercial bank deposit outflows	- Substantial outflows as Barclays is seen as greater credit risk than competitors.
Intra-day risk	- Liquid collateral held against intra-day requirement at clearing and payment systems is regarded as encumbered with no liquidity value assumed; and - Liquid collateral is held against withdrawal of unsecured intra-day lines provided by third parties.
Intra-group risk	- Risk of liquidity within subsidiaries becoming unavailable to the wider Group.
Funding concentration risk	- Additional outflows recognised against concentration of providers of wholesale secured financing.
Off-balance sheet risk	- Collateral outflows due to market movements, taking account of disputes and mismatches between collateralised and uncollateralised OTC and exchange-traded positions; - Outflow of all collateral owed by Barclays to counterparties but not yet called; - Anticipated increase in firm's derivative initial margin requirement in a stressed environment; - Collateral outflows contingent upon a multi-notch credit rating downgrade of Barclays Bank PLC; - Significant drawdown on committed facilities provided to corporates, based on counterparty type, creditworthiness and facility type; and - Drawdown on retail commitments.
Franchise viability	- Barclays liquidity stress testing recognises that it will be necessary to hold additional liquidity in order to meet outflows that are non-contractual in nature, but are necessary in order to support the firm's ongoing franchise (for example, market-making activities).
Mitigating actions	- Unencumbered marketable assets that are held outside of the liquidity pool, and that are of known liquidity value to the firm, are assumed to be monetised (subject to haircut/ valuation adjustment).

In the summer of 2012, Barclays reduced its risk appetite by tightening limits and extending the time horizon of the LRA. The reduction was a pre-emptive and precautionary measure in response to market conditions and the LIBOR announcement and senior management resignations. No material deterioration in funding conditions materialised.

Liquidity Regulation

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

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

In January 2013, the Basel Committee on Banking Supervision published a revised standard for the LCR. Compared to the previous version of the standard (published by the Basel Committee in December 2010), these revisions result in significantly lower stress requirements and allow for the inclusion in the liquidity pool of an additional category of high-quality liquid assets (referred to as Level 2B assets). Furthermore, the Basel Committee announced that the LCR requirement will be subject to a phase-in period between January 2015 (60% minimum requirement) and January 2019 (100% minimum requirement). The minimum NSFR requirement is to be introduced in January 2018 at 100%.

Based on the revised Basel standards, as at 31 December 2012, Barclays had a surplus to both of these requirements with an estimated Basel 3 LCR of 126% and an estimated Basel 3 NSFR of 104% (2011: 97%)[a].

Comparing Internal and Regulatory Liquidity Stress Tests

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

Stress Test	Barclays LRA	FSA ILG	Basel 3 LCR	Basel 3 NSFR
Time Horizon	1 – 3 months	3 months	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

As at 31 December 2012, the Group held eligible liquid assets significantly in excess of 100% of stress requirements for each of the one month Barclays-specific LRA scenario and the Basel 3 LCR requirement:

Compliance with internal and regulatory stress tests As at 31 December 2012	Barclays LRA (one month Barclays specific requirement)[b] £bn	Estimated Basel 3 LCR (revised text January 2013) £bn
Total eligible liquidity pool	150	155
Asset inflows	-	18
Stress outflows		
Retail and commercial deposit outflows	(29)	(36)
Wholesale funding	(45)	(47)
Net secured funding	(11)	(12)
Derivatives	(10)	(10)
Contractual credit rating downgrade exposure	(13)	(14)
Drawdowns of loan commitments	(6)	(22)
Other	(2)	-
Total stress net cash flows	(116)	(123)
Surplus	34	32
Liquidity pool as a percentage of anticipated net cash flows	129%	126%

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

Notes

a Under the previous version of the Basel standards published in December 2010, the Group LCR estimate as at 31 December 2012 was 103% (2011: 82%). Banks employ a wide range of interpretations and assumptions to calculate the Basel liquidity ratios. These interpretations and assumptions are subject to change prior to implementation in January 2015 (LCR) and January 2018 (NSFR). The LCR and NSFR estimates are calculated for the Group on a consolidated basis (including Absa Group), in line with the latest guidance from the Basel Committee. The inclusion of Absa Group in the calculation does not have a significant impact on the estimated ratios.

b Of the three stress scenarios monitored as part of the LRA, the one month Barclays specific scenario results in the lowest ratio at 129% (2011: 107%). This compares to 141% (2011: 127%) under the three month market-wide scenario and 145% (2011: 118%) under the one month combined scenario.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Liquidity Pool (audited)

The Group liquidity pool is held unencumbered against contractual and contingent stress outflows in the LRA stress tests and is not used to support payment or clearing requirements. As at 31 December 2012, the Group liquidity pool was £150bn (2011: £152bn). During 2012 the month-end liquidity pool ranged from £150bn to £173bn and the month-end average balance was £162bn (2011: £156bn).

Barclays does not include any own-name securities in its liquidity pool.

Composition of the Group Liquidity Pool as at 31 December 2012 (audited)	Liquidity pool	Liquidity pool of which FSA eligible	Liquidity pool of which Basel 3 LCR-eligible	
			Level 1	Level 2A[a]
	£bn	£bn	£bn	£bn
Cash and deposits with central banks[b]	**85**	**82**	**82**	-
Government bonds[c]				
AAA rated	40	39	40	-
AA+ to AA- rated	5	4	5	-
A+ to A- rated	1	-	-	1
Total government bonds	**46**	**43**	**45**	**1**
Other				
Supranational bonds and multilateral development banks	4	4	4	-
Agencies and agency mortgage-backed securities	7	-	5	2
Covered bonds (rated AA- and above)	5	-	-	5
Other	3	-	-	-
Total Other	**19**	**4**	**9**	**7**
Total	**150**	**129**	**136**	**8**

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

Liquidity Pool by Currency	USD £bn	EUR £bn	GBP £bn	Other £bn	Total £bn
Liquidity Pool	**26**	**66**	**25**	**33**	**150**

Notes
a The LCR eligible assets presented in this table represent only those assets which are also eligible for the Group liquidity pool and do not include any Level 2B assets as a result.
b Of which over 95% (2011: over 95%) was placed with the Bank of England, US Federal Reserve, European Central Bank, Bank of Japan and Swiss National Bank.
c Of which over 80% (2011: over 80%) of securities are comprised of UK, US, Japan, France, Germany, Denmark and the Netherlands.

Management of the Group Liquidity Pool (audited)

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

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

As at 31 December 2012, the portion of the Group liquidity pool comprised of cash and deposits with central banks reduced to £85bn (2011: £105bn) as a result of a reallocation to government bonds and other highly liquid assets.

Barclays manages the liquidity pool on a centralised basis. As at 31 December 2012, 90% of the liquidity pool was located in Barclays Bank PLC (2011: 94%) and was available to meet liquidity needs across the Barclays Group. The residual liquidity pool is held predominantly within Barclays Capital Inc. (BCI). The portion of the liquidity pool outside of Barclays Bank PLC is held against entity-specific stressed outflows and regulatory requirements. To the extent the use of this portion of the liquidity pool is restricted due to regulatory requirements, it is assumed to be unavailable to the rest of the Group.

For more information on the governance framework for investing the Group liquidity pool see page 72-73.

Contingent Liquidity

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

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

For more detail on the Group's other unencumbered assets see page 84.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Funding Structure

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

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

Trading portfolio assets and reverse repurchase agreements are largely funded in the wholesale markets by repurchase agreements and trading portfolio liabilities, while derivative assets are largely matched by derivative liabilities. The liquidity pool is predominantly funded through wholesale markets. These funding relationships are summarised below as of 31 December 2012:

Assets		Liabilities	
Customer loans and advances[a]	£364bn	Customer deposits[a]	£336bn
Group liquidity pool	£150bn	<1 Year wholesale funding	£101bn
Other Assets[b]	£163bn	>1 Year wholesale funding	£138bn
		Equity and Other liabilities[b]	£108bn
Reverse repurchase agreements and matched assets and liabilities[c]	£347bn	Repurchase agreements and matched assets and liabilities[c]	£347bn
Derivative financial instruments[b]	£466bn	Derivative financial instruments[b]	£460bn

Deposit funding (including Absa Group; audited)

Deposit Funding[d]	2012			2011
Funding of Loans and Advances to Customers	Loans and Advances to Customers £bn	Customer Deposits £bn	Loan to Deposit Ratio %	Loan to Deposit Ratio %
Retail and Business Banking	232.8	158.4	147	146
Corporate Banking[e]	62.9	97.1	65	83
Wealth and Investment Management	21.2	53.8	39	40
Total funding excluding secured	316.9	309.3	102	111
Secured funding	-	48.8	-	-
Sub-total including secured funding	316.9	358.1	88	101
Retail and Business Banking, Corporate Banking and Wealth and Investment Management[e]	316.9	309.3	102	111
Investment Bank	46.2	26.1	177	138
Head Office and Other Operations	0.8	0.2	-	-
Trading settlement balances and cash collateral	61.8	50.1	123	142
Total	425.7	385.7	110	118

Notes
a Excluding cash collateral and settlement balances.
b Absa Group balances other than customer loans and advances of £37bn and customer deposits of £33bn are included in other assets and liabilities.
c Comprised of reverse repurchase that provide financing to customers collateralised by highly liquid securities on a short term basis or are used to settle short term inventory positions; repo financing of trading portfolio assets and matched cash collateral and settlement balances.
d Included within Retail and Business Banking, Corporate Banking and the Investment Bank are Absa Group related balances totalling £37bn of loans and advances to customers funded by £33bn of customer deposits.
e In addition Corporate Banking holds £17.6bn (2011: £17.2bn) loans and advances as financial assets held at fair value.

The Group loan to deposit ratio as at 31 December 2012 was 110% (2011: 118%).

Retail and Business Banking, Corporate Banking and Wealth and Investment Management activities are largely funded with customer deposits. As at 31 December 2012, the loan to deposit ratio for these businesses was 102% (2011: 111%). The funding gap for these businesses is met using asset backed securities (ABS) and covered bonds secured primarily over customer loans and advances such as residential mortgages and credit card receivables, resulting in a loan to deposit and secured funding ratio of 88% (2011: 101%).

The excess of the Investment Bank's loans and advances over customer deposits is funded with long term debt and equity. The Investment Bank does not rely on customer deposit funding from Retail and Business Banking, Corporate Banking and Wealth and Investment Management.

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

Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Group's operations and liquidity needs. Barclays models the behaviour of both assets and liabilities on a net cash flow basis using our experience of customer behaviour to assess balance sheet behaviouralised funding gaps under business as usual conditions. These behavioural maturities are used to determine funds transfer pricing interest rates at which businesses are rewarded and charged for sources and uses of funds.

Behavioural maturity profile (including Absa Group; audited)	Loans and advances to customers	Customer deposits	Customer funding surplus/ (deficit)	Behavioural maturity profile cash outflow (Inflow)	
				Less than one year	Greater than one year
As at 31 December 2012	£bn	£bn	£bn	£bn	£bn
Retail and Business Banking	232.8	158.4	(74.4)	(16.8)	(57.6)
Corporate Banking	62.9	97.1	34.2	11.3	22.9
Wealth and Investment Management	21.2	53.8	32.6	6.9	25.7
Total funding excluding secured	316.9	309.3	(7.6)	1.4	(9.0)
Secured funding	-	48.8	48.8	14.5	34.3
Total Retail and Business Banking, Corporate Banking and Wealth and Investment Management funding	316.9	358.1	41.2	15.9	25.3

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

Wholesale funding (audited)

Wholesale funding relationships as at 31 December 2012:

Assets	£bn	Liabilities	£bn
Trading portfolio assets and other securities	85	Repurchase agreements	217
Reverse repurchase agreements	132		
Reverse repurchase agreements	44	Trading portfolio liabilities	44
Derivative financial instruments	466	Derivative financial instruments	460
Liquidity pool	150	Less than 1 year wholesale debt	101
Other assets[a]	148	Greater than 1 year wholesale debt and equity	197

Trading portfolio assets are largely funded by repurchase agreements. The majority of reverse repurchase agreements (i.e. secured lending) are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities. Derivative assets and liabilities are largely matched. A substantial proportion of balance sheet derivative positions qualify for counterparty netting and the remaining portions are largely offset once netted against cash collateral received and paid. The liquidity pool is largely funded by wholesale debt, the majority of which matures in less than one year. Other assets are largely matched by term wholesale debt and equity.

Note

a Predominantly available for sale investments, trading portfolio assets, financial assets designated at fair value and loans and advances to banks funded by greater than one year wholesale debt and equity.

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Composition of Wholesale Funding (audited)

The Group maintains access to a variety of sources of wholesale funds in major currencies, including those available from money markets, repo markets and term investors, across a variety of distribution channels and geographies. The Group is an active participant in money markets, has direct access to US, European and Asian capital markets through its global Investment Banking operations and long term investors through its clients worldwide. As a result, wholesale funding is well diversified by product, maturity, geography and major currency.

As at 31 December 2012, total wholesale funding outstanding (excluding repurchase agreements) was £240bn (2011: £265bn). £101bn of wholesale funding matures in less than one year (2011: £130bn) of which £18bn relates to term funding (2011: £27bn)[a]. £138bn of wholesale funding had a residual maturity of over one year (2011: £135bn).

As at 31 December 2012, outstanding wholesale funding comprised £39bn of secured funding (2011: £39bn) and £201bn of unsecured funding (2011: £227bn).

Maturity profile of wholesale funding[b] (audited)	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Sub-total less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Deposits from Banks	10.8	8.7	1.5	0.7	21.7	1.6	7.2	30.5
Customer deposits and commercial paper	5.8	23.4	9.0	6.9	45.1	2.0	1.3	48.4
Asset Backed Commercial Paper	2.9	2.5	-	-	5.4	-	-	5.4
Senior unsecured (Public benchmark)	3.3	-	-	0.6	3.9	7.8	14.4	26.1
Senior unsecured (Privately placed)	0.7	4.1	4.0	5.3	14.1	10.8	38.5	63.4
Covered bonds/ABS	-	0.4	1.3	0.4	2.1	4.7	20.8	27.6
Subordinated liabilities	-	0.6	-	0.1	0.7	-	22.0	22.7
Other[c]	3.8	1.4	1.9	1.2	8.3	1.2	5.9	15.4
Total as at 31 December 2012	**27.3**	**41.1**	**17.7**	**15.2**	**101.3**	**28.1**	**110.1**	**239.5**
Of which secured	**4.6**	**4.0**	**2.4**	**1.3**	**12.3**	**5.2**	**21.5**	**39.0**
Of which unsecured	**22.7**	**37.1**	**15.3**	**13.9**	**89.0**	**22.9**	**88.6**	**200.5**
Total as at 31December 2011					130.3			265.2
Of which secured					16.9			38.7
Of which unsecured					113.4			226.5

The Group has £63bn of privately placed senior unsecured notes in issue. These notes are issued through a variety of distribution channels including intermediaries and private banks. A large proportion of end users of these products are individual retail investors.

The liquidity risk of wholesale funding is carefully managed primarily through the LRA stress tests, against which the liquidity pool is held. Although not a requirement, the liquidity pool exceeded wholesale funding maturing in less than one year by £49bn as at 31 December 2012 (2011: £22bn).

The average maturity of wholesale funding net of the liquidity pool was at least 61 months (2011: 58 months).

Notes

a Term funding maturities comprise public benchmark and privately placed senior unsecured notes, covered bonds/ABS and subordinated debt where the original maturity of the instrument was more than one year. In addition, as at 31 December 2012, £3bn of these instruments were not counted towards term financing as they had an original maturity of less than 1 year.

b The composition of wholesale funds comprises the balance sheet reported deposits from banks, financial liabilities at fair value, debts securities in issue and subordinated liabilities, excluding cash collateral and settlement balances. It does not include collateral swaps, including participation in the Bank of England's Funding for Lending Scheme. Included within Deposits from Banks are £6.7bn of liabilities drawn in the European Central Bank's 3 year long-term refinancing operation (LTRO).

c Primarily comprised of Fair value deposits (£7.1bn) and secured financing of physical gold (£6.0bn).

Currency composition of wholesale debt

As at 31 December 2012, the proportion of wholesale funding by major currencies was as follows:

Currency composition of wholesale funds	USD %	EUR %	GBP %	Other %
Deposits from Banks	11	51	30	8
Customer deposits and commercial paper	50	30	20	-
Asset backed commercial paper	78	13	9	-
Senior unsecured	27	37	16	20
Covered bonds/ABS	22	58	19	1
Subordinated Liabilities	28	24	47	1
Total as at 31 December 2012	**31**	**38**	**22**	**9**
Total as at 31 December 2011	**27**	**42**	**17**	**14**

To manage cross-currency refinancing risk Barclays manages to foreign exchange cash-flow limits, which limit risk at specific maturities.

Term financing (audited)

The Group continues to attract deposits in unsecured money markets and to raise additional secured and unsecured term funding in a variety of markets. During 2012 the Group issued approximately £28bn of term funding, comprising:

- £3.4bn equivalent of public benchmark senior unsecured debt;
- £6.2bn equivalent of net privately placed senior unsecured debt;
- £16.8bn equivalent of secured debt; and
- £1.9bn of subordinated debt.

Included within secured funding issued during 2012 is £6bn of funding raised through participation in the Bank of England's FLS.

Subordinated debt issued during 2012 comprises a Tier 2 issue of £1.9bn equivalent of contingent capital notes which includes a write-off feature should the Group's CT1 or CET1 capital, as appropriate, fall below 7%.

As previously disclosed, in addition to the above issuance, Euro funding gaps in Spain and Portugal were reduced through accessing €8.2bn of the European Central Bank's three year long-term refinancing operation in February 2012 (see page 59 for more detail of local Eurozone balance sheet funding exposures).

Funding Plan

Barclays maintains a long-term strategic funding plan, designed to reduce structural funding risk and optimise interest costs.

Total 2012 issuance was sufficient to cover the Group's needs for 2012 and also to pre-fund a large portion of the Group's needs for 2013. The Group's needs in 2012 were significantly lower than the £27bn of term funding maturing in that year due to the improvement in the customer loan to deposit ratio and a reduction in legacy assets.

The Group has £18bn of term debt maturing in 2013 and a further £24bn maturing in 2014. However, with expected deposit growth and reduction in legacy assets, funding needs are likely to be lower. The Group continues to recognise the importance of a diversified funding base, and therefore monitors opportunities across a variety of funding markets.

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Barclays funds a portion of trading portfolio assets and other securities via repurchase agreements and other similar secured borrowing and pledges a portion of customer loans and advances as collateral in securitisation, covered bond and other similar secured structures.

Barclays monitors the mix of secured and unsecured funding sources within the Group's funding plan and seeks to efficiently utilise available collateral to raise secured funding and meet other collateralised obligations. Over the last 18 months the proportion of term funding requirements met with secured funding has increased, resulting in an increase in the encumbrance of loans and advances to customers. We expect to moderately increase encumbrance of loans and advances to customers through additional term secured funding in the Group's Funding Plan, however, this is not expected to materially impact the overall proportion of assets that are encumbered.

As at 31 December 2012, only £231bn of the Group's balance sheet assets were encumbered (excluding reverse repurchase agreements), which primarily related to firm financing of trading portfolio assets and other securities and to funding secured against loans and advances to customers. In addition, £308bn of the total £359bn securities accepted as collateral, and held off-balance sheet, were on-pledged, the significant majority of which relates to matched-book activity where reverse repurchase agreements are matched by repurchase agreements entered into to facilitate client activity. The remainder relates primarily to reverse repurchases used to settle trading portfolio liabilities as well as collateral posted against derivatives margin requirements.

Asset encumbrance

			Unencumbered assets	
	Assets	Encumbered assets[a]	Readily available[b]	Other[c]
On-balance sheet	£bn	£bn	£bn	£bn
Cash and balances at central banks	84.6	-	82.1	2.5
Trading portfolio assets	142.0	85.0	54.6	2.4
Financial assets at fair value [d]	37.1	8.1	6.9	22.1
Available for sale investments	70.3	12.3	58.0	-
Loans and advances to banks [e]	16.0	-	-	16.0
Loans and advances to customers[e]	327.7	72.9	40.4	214.4
Other (incl. derivatives)	489.0	-	-	489.0
Cash collateral and settlement balances	85.1	52.5	-	32.6
Total on-balance sheet (excl. reverse repurchase agreements)	**1,251.8**	**230.8**	**242.0**	**779.0**

			Unencumbered assets	
	Collateral received	Collateral received of which on-pledge	Readily available	Other
Off-balance sheet	£bn	£bn	£bn	£bn
Fair value of securities accepted as collateral	359.1	308.0	51.1	-
Total unencumbered collateral			**293.1**	**779.0**

Notes

a Encumbered assets have been identified via the Group's assets pledged process. For securities and commodities assets are considered encumbered if there has been legal title transfer against repurchase, stock lending and other similar secured borrowing agreements, trading portfolio liabilities or derivatives margin. Encumbered loans and advances have been identified where assets are pledged against external securitisations or covered bonds or have been used in external repurchase or other similar agreements with market counterparts or central banks. Additionally, encumbered assets include cash collateral posted. Encumbered assets do not include assets which may have been pledged for other reasons and does not include client activity.

b Readily available assets are those on and off balance sheet assets that have not been identified as encumbered and are in transferable form.

c Other unencumbered cash and balances at central banks represents required central bank reserves.

d Excluding reverse repurchase agreements at fair value.

e Excluding cash collateral and settlement balances.

Of the £1,072bn total unencumbered assets, £293bn are classified as readily available for use as collateral. This includes cash and securities held in the Group liquidity pool as well as additional unencumbered assets which provide a source of contingent liquidity. While these additional assets are not relied on in the Group's LRA, a portion of these assets may be monetised in a stress to generate liquidity through use as collateral for secured funding or through outright sale.

Unencumbered assets not classified as readily available for use as collateral consist primarily of derivatives and loans and advances to customers. Loans and advances to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and advances are conservatively classified as not readily available, however a proportion would be suitable for use in secured funding structures.

Encumbrance of loans and advances

Barclays issues ABS, covered bonds and other similar secured instruments that are secured primarily over customer loans and advances. Notes issued from these programmes are also used in repurchase agreements with market counterparts and in central bank facilities. Barclays also utilises loan collateral in central bank facilities in non-securitised form.

The Group currently manages four primary on balance sheet asset-backed funding programmes to obtain term financing for mortgage and credit card lending. The UK regulated covered bond and the residential mortgage master trust securitisation programmes both utilise assets originated by the Group's UK residential mortgage business. The other programmes are credit card master trust securitisations and use receivables from the Group's UK and US credit card businesses. The programmes utilise true sale mechanics to transfer the title of the loan assets from Barclays Bank PLC (BBPLC) to insolvency remote special purpose vehicles. These programmes initially transfer the respective assets by way of a beneficial transfer of the assets. However, should there be a 'perfection' event (including, amongst other things, the insolvency of BBPLC or BBPLC not maintaining the appropriate credit rating required by the relevant rating agency), then legal transfer of the assets would occur.

As at 31 December 2012, £98bn of customer loans and advances were transferred to these and other asset backed funding programmes or utilised to secure funding from central bank facilities. These assets were used to support £27bn of externally issued notes and a further £31bn of retained notes and non-securitised loan collateral used in repurchase agreements with market counterparts and at central bank facilities. Inclusive of required over-collateralisation of £15bn, a total of 17% of total loans and advances to customers were used to secure external funding via these programmes.

In addition, as at 31 December 2012 the Group had £15bn of excess collateral within its asset backed funding programmes that can readily be used to raise additional secured funding and support future issuance. A portion of retained notes are also available to raise secured funding.

Encumbrance of customer loans and advances		Notes issued		
	Assets[a]	Externally issued notes	Other secured funding[b]	Retained
As at 31 December 2012	£bn	£bn	£bn	£bn
Mortgages (residential mortgage backed securities)	34.1	5.1	19.6	3.8
Mortgages (covered bonds)	29.9	16.2	1.9	-
Mortgages (loans)[c]	14.2	-	7.3	-
Credit cards	12.9	5.5	-	1.0
Corporate loans	2.5	0.2	1.1	3.1
Other[d]	4.8	-	1.2	3.1
Total	**98.4**	**27.0**	**31.1**	**11.0**

Notes
a Includes £3bn of cash reserves supporting secured funding vehicles.
b Comprised of bilateral repurchase agreements, collateral swaps and participation in central bank facilities.
c For mortgage loan collateral, assets reflects the value of collateral pledged and other secured funding reflects the liquidity value obtained.
d Primarily comprised of local authority covered bonds and export credit agency guaranteed loan collateral.

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Repurchase agreements and reverse repurchase agreements

Barclays enters into repurchase and other similar secured borrowing agreements to finance its trading portfolio assets. The majority of reverse repurchase agreements are matched by offsetting repurchase agreements entered into to facilitate client activity. The remainder are used to settle trading portfolio liabilities.

Due to the high quality of collateral provided against secured financing transactions, the liquidity risk associated with this activity is significantly lower than unsecured financing transactions. Nonetheless, Barclays manages to gross and net secured mismatch limits to limit refinancing risk under a severe stress scenario and a portion of the Group's liquidity pool is held against stress outflows on these positions. The Group secured mismatch limits are calibrated based on market capacity, liquidity characteristics of the collateral and risk appetite of the Group.

The cash value of repurchase and reverse repurchase transactions will typically differ from the market value of the collateral against which these transactions are secured by an amount referred to as a haircut (or overcollateralisation). Typical haircut levels vary depending on the quality of the collateral that underlies these transactions. For transactions secured against highly liquid collateral[a], lenders demand relatively small haircuts (typically ranging from 0-2%). For transactions secured against less liquid collateral, haircuts vary by asset class (typically ranging from 5-10% for corporate bonds and other less liquid collateral).

As at 31 December 2012, the significant majority of repurchase activity related to matched-book activity. The Group may face refinancing risk on the net maturity mismatch for matched-book activity. However, 75% of matched-book activity is against highly liquid collateral and where against less liquid collateral net repurchase maturities are managed to longer-tenors.

Net matched book activity[b] Negative number represents net repurchase agreement (net liability)	Less than one month £bn	One month to three months £bn	Over three months £bn
Highly liquid[a]	(14.1)	6.6	7.5
Less liquid[a]	5.7	(1.7)	(4.0)
Total	(8.4)	4.9	3.5

The residual repurchase agreement activity is the firm-financing component and reflects Barclays funding of a portion of its trading portfolio assets. The primary risk related to firm-financing activity is the inability to roll-over transactions as they mature. However, 74% of firm-financing activity was secured against highly liquid assets and the weighted average maturity of firm-financing activity secured against less liquid assets was 98 days.

Firm financing repurchase agreements	Less than one month £bn	One month to three months £bn	Over three months £bn	Total £bn
Highly liquid[a]	66.8	6.5	2.9	76.2
Less liquid[a]	16.0	4.3	6.0	26.3
Total	82.8	10.8	8.9	102.5

Notes
a Highly liquid assets include government bonds, agency securities and mortgage-backed securities. Less liquid assets include asset-backed securities, corporate bonds, equities and other.
b Includes collateral swaps.

Credit Ratings

In addition to monitoring and managing key metrics related to the financial strength of Barclays, we also subscribe to independent credit rating agency reviews by Standard & Poor's, Moody's, Fitch and DBRS. These ratings assess the credit worthiness of Barclays and are based on reviews of a broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting and governance.

A credit rating downgrade could result in contractual outflows to meet collateral requirements on existing contracts. Outflows related to a multiple-notch credit rating downgrade are included in the LRA stress scenarios and a portion of the liquidity pool is held against this risk. Credit ratings downgrades could also result in increased costs or reduced capacity to raise funding.

Credit Ratings As at 31 December 2012	Standard & Poor's	Moody's	Fitch	DBRS
Barclays PLC				
Long Term	A (Negative)	A3 (Negative)	A (Stable)	n/a
Short Term	A-1	P-2	F1	n/a
Barclays Bank PLC				
Long Term	A+ (Negative)	A2 (Negative)	A (Stable)	AA (Negative)
Short Term	A-1	P-1	F1	R-1 (High)

During 2012, Barclays Bank PLC rating was downgraded by Moody's, from Aa3/P-1 to A2/P-1, as a result of the agency's rating repositioning of banks and securities firms with global capital market operations, and by DBRS, from AA High/ R-1 High to AA/R-1 High, as the result of the resignation of senior management during the summer. Barclays was fully reserving for maximum contractual outflows as a result of the ratings actions in the liquidity pool. There has been no significant change in deposit funding or wholesale funding in relation to the rating actions.

Further credit rating downgrades could result in contractual outflows to meet collateral requirements on existing contracts. The below table shows contractual collateral requirements following one and two notch long term and associated short term simultaneous downgrades across all credit rating agencies, which are fully reserved for in the liquidity pool. These numbers do not assume any management or restructuring actions that could be taken to reduce posting requirements. These outflows do not include the potential liquidity impact from loss of unsecured funding, such as from money market funds, or loss of secured funding capacity. However, unsecured and secured funding stresses are included in the LRA stress scenarios and a portion of the liquidity pool is held against these risks.

Contractual credit rating downgrade exposure (cumulative cash flow)	Cumulative cash outflow	
	One-notch downgrade	Two-notch downgrade
As at 31 December 2012	£bn	£bn
Securitisation derivatives	5	7
Contingent liabilities	7	7
Derivatives margining	-	1
Liquidity facilities	1	2
Total contractual funding or margin requirements	**13**	**17**

Risk review
Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Liquidity Management at Absa Group (audited)

Liquidity risk is managed separately at Absa Group due to local currency, funding and regulatory requirements.

In addition to the Group liquidity pool, as at 31 December 2012, Absa Group held £4.6bn of liquidity pool assets against Absa-specific anticipated stressed outflows. The liquidity pool consists of South African government bonds and Treasury bills.

The Absa loan to deposit ratio as at 31 December 2012 was 112% (2011: 115%). The improvement in the loan to deposit ratio was driven by a reduction in loans and advances as a result of exchange rate movements combined with lower demand for credit across the South African economy in general, as well as a continued focus on ensuring that high credit standards continue to be applied. Absa has also seen an increase in the term of customer deposits over the period.

As at 31 December 2012, Absa had £12bn of wholesale funding outstanding (2011: £15bn), of which £6bn matures in less than 12 months (2011: £9bn). Issuance of term debt during 2012 included £0.5bn of senior unsecured debt and £0.4bn of subordinated debt, further extending the term and diversity of the funding base.

Contractual maturity of financial assets and liabilities (audited)

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk. Such information is used (among other things) as the basis for modelling a behavioural balance sheet, for input into the liquidity framework, as discussed above.

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the on demand column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have been included in other assets and other liabilities as the Group is not exposed to liquidity risk arising from them; any request for funds from creditors would be met by simultaneously liquidating or transferring the related investment.

Contractual maturity of financial assets and liabilities (including Absa Group; audited)

As at 31 December 2012 The Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	42,419	43,756	-	-	-	-	-	-	86,175
Items in the course of collection from other banks	1,225	231	-	-	-	-	-	-	1,456
Trading portfolio assets	145,030	-	-	-	-	-	-	-	145,030
Financial assets designated at fair value	1,268	15,672	772	1,225	2,054	3,354	1,861	18,592	44,798
Derivative financial instruments	465,346	169	49	56	355	1,993	717	461	469,146
Loans and advances to banks	5,055	32,788	236	967	933	288	172	459	40,898
Loans and advances to customers	37,479	76,288	7,971	17,243	26,789	74,479	64,467	121,013	425,729
Reverse repurchase agreements and other similar secured lending	36	166,029	8,135	2,457	66	199	12	22	176,956
Available for sale investments	357	4,338	2,770	9,955	10,805	19,408	15,189	12,311	75,133
Other financial assets	-	1,615	-	-	386	-	-	-	2,001
Total financial assets	**698,215**	**340,886**	**19,933**	**31,903**	**41,388**	**99,721**	**82,418**	**152,858**	**1,467,322**
Other assets									23,425
Total assets									**1,490,747**
Liabilities									
Deposits from banks	8,619	57,099	1,664	844	1,617	5,925	229	1,013	77,010
Items in the course of collection due to other banks	1,449	124	-	-	-	-	-	-	1,573
Customer accounts	255,836	90,490	9,810	12,954	11,148	2,790	1,981	787	385,796
Repurchase agreements and other similar secured borrowing	394	207,312	4,538	3,742	47	1,309	-	-	217,342
Trading portfolio liabilities	44,794	-	-	-	-	-	-	-	44,794
Financial liabilities designated at fair value	1,434	7,882	6,278	7,178	11,977	23,037	10,145	8,855	76,786
Derivative financial instruments	459,334	63	32	48	333	844	1,074	740	462,468
Debt securities in issue	1,523	38,850	10,796	9,128	16,388	28,011	12,208	2,677	119,581
Subordinated liabilities	-	877	-	92	363	2,240	12,287	8,563	24,422
Other financial liabilities	-	4,080	-	-	641	-	-	-	4,721
Total financial liabilities	**773,383**	**406,777**	**33,118**	**33,986**	**42,514**	**64,156**	**37,924**	**22,635**	**1,414,493**
Other liabilities									13,360
Total liabilities									**1,427,853**
Cumulative liquidity gap	**(75,168)**	**(141,059)**	**(154,244)**	**(156,327)**	**(157,453)**	**(121,888)**	**(77,394)**	**52,829**	**62,894**

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)

At 31 December 2012	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year but not more than two years	Over two years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Bank	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	38,529	43,467	-	-	-	-	-	-	81,996
Items in the course of collection from other banks	861	215	-	-	-	-	-	-	1,076
Trading portfolio assets	74,719	-	-	-	-	-	-	-	74,719
Financial assets designated at fair value	402	42,414	1,360	2,767	4,557	8,090	3,205	19,442	82,237
Derivative financial instruments	472,720	134	32	37	323	1,892	622	369	476,129
Loans and advances to banks	4,014	30,572	3,490	4,753	2,483	5,219	228	416	51,175
Loans and advances to customers	31,872	189,324	6,796	14,163	20,152	58,695	49,545	104,176	474,723
Reverse repurchase agreements and other similar secured lending	13,244	152,325	6,265	2,097	120	199	12	22	174,284
Available for sale investments	31	2,419	1,555	9,045	7,586	16,567	13,358	11,192	61,753
Other financial assets	-	964	-	-	44	-	-	-	1,008
Total financial assets	636,392	461,834	19,498	32,862	35,265	90,662	66,970	135,617	1,479,100
Other assets									36,063
Total assets									1,515,163
Liabilities									
Deposits from banks	21,316	55,570	1,616	954	1,627	2,267	355	35	83,740
Items in the course of collection due to other banks	999	232	-	-	-	-	-	-	1,231
Customer accounts	215,867	198,431	8,943	17,322	14,227	19,512	4,328	2,496	481,126
Repurchase agreements and other similar secured borrowing	21,196	158,521	2,611	3,464	47	1,309	-	-	187,148
Trading portfolio liabilities	30,105	-	-	-	-	-	-	-	30,105
Financial liabilities designated at fair value	1,191	8,060	7,023	9,347	15,835	28,783	11,388	9,749	91,376
Derivative financial instruments	463,468	62	11	27	303	725	985	740	466,321
Debt securities in issue	20	28,013	8,204	6,813	10,299	20,216	10,324	1,284	85,173
Subordinated liabilities	-	636	-	96	-	1,789	12,191	8,229	22,941
Other financial liabilities	-	12,578	-	-	99	-	-	-	12,677
Total financial liabilities	754,162	462,103	28,408	38,023	42,437	74,601	39,571	22,533	1,461,838
Other liabilities									5,620
Total liabilities									1,467,458
Cumulative liquidity gap	(117,770)	(118,039)	(126,949)	(132,110)	(139,282)	(123,221)	(95,822)	17,262	47,705

Contractual maturity of financial assets and liabilities (including Absa Group; audited)

As at 31 December 2011	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year but not more than two years	Over two years but not more than five years	Over five years but not more than ten years	Over ten years	Total
The Group	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central banks	58,317	48,577	-	-	-	-	-	-	106,894
Items in the course of collection from other banks	1,188	624	-	-	-	-	-	-	1,812
Trading portfolio assets	152,183	-	-	-	-	-	-	-	152,183
Financial assets designated at fair value	802	4,257	1,046	1,725	1,812	4,355	2,532	19,118	35,647
Derivative financial instruments	535,306	122	109	188	64	1,389	904	882	538,964
Loans and advances to banks	6,048	35,238	2,022	817	1,184	748	322	413	46,792
Loans and advances to customers	43,523	74,024	8,124	16,583	26,882	78,404	61,784	122,610	431,934
Reverse repurchase agreements and other similar secured lending	24	141,751	7,674	3,423	374	128	133	158	153,665
Available for sale investments	363	10,504	4,833	4,079	3,822	20,906	12,489	12,027	69,023
Other financial assets	-	1,978	-	-	640	-	-	-	2,618
Total financial assets	797,754	317,075	23,808	26,815	34,778	105,930	78,164	155,208	1,539,532
Other assets									23,870
Total assets									1,563,402
Liabilities									
Deposits from banks	7,866	79,507	880	896	351	1,283	333	-	91,116
Items in the course of collection due to other banks	965	4	-	-	-	-	-	-	969
Customer accounts	213,935	119,016	8,838	11,568	3,774	5,408	2,206	1,300	366,045
Repurchase agreements and other similar secured borrowing	23	196,066	9,356	1,554	72	183	36	2	207,292
Trading portfolio liabilities	45,887	-	-	-	-	-	-	-	45,887
Financial liabilities designated at fair value	1,525	11,743	4,033	11,077	8,391	27,718	11,511	10,318	86,316
Derivative financial instruments	524,439	345	146	44	63	1,078	592	1,091	527,798
Debt securities in issue	75	52,189	13,084	7,803	8,848	28,727	13,235	5,775	129,736
Subordinated liabilities	-	78	-	115	855	741	13,403	9,678	24,870
Other financial liabilities	-	3,641	-	-	1,594	-	-	-	5,235
Total financial liabilities	794,715	462,589	36,337	33,057	23,948	65,138	41,316	28,164	1,485,264
Other liabilities									12,968
Total liabilities									1,498,232
Cumulative liquidity gap	3,039	(142,475)	(155,004)	(161,246)	(150,416)	(109,624)	(72,776)	54,268	65,170

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)

At 31 December 2011 The Bank	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than two years £m	Over two years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	54,551	48,536	-	-	-	-	-	-	103,087
Items in the course of collection from other banks	1,184	450	-	-	-	-	-	-	1,634
Trading portfolio assets	85,048	-	-	-	-	-	-	-	85,048
Financial assets designated at fair value	105	5,288	2,517	3,001	3,280	9,133	2,724	18,504	44,552
Derivative financial instruments	543,570	67	23	23	64	1,389	904	881	546,921
Loans and advances to banks	5,223	28,347	2,675	5,262	2,388	5,672	2,033	687	52,287
Loans and advances to customers	43,576	221,733	6,120	16,001	22,304	64,440	48,191	95,415	517,780
Reverse repurchase agreements and other similar secured lending	277	150,572	6,479	3,315	374	128	133	158	161,436
Available for sale investments	1	2,371	2,443	2,957	3,008	16,708	11,273	9,218	47,979
Other financial assets	-	1,020	-	-	150	-	-	-	1,170
Total financial assets	733,535	458,384	20,257	30,559	31,568	97,470	65,258	124,863	1,561,894
Other assets									40,709
Total assets									1,602,603
Liabilities									
Deposits from banks	27,316	76,243	1,153	1,351	1,176	1,071	493	13	108,816
Items in the course of collection due to other banks	962	4	-	-	-	-	-	-	966
Customer accounts	194,869	211,769	6,537	15,259	6,696	11,861	3,871	3,660	454,522
Repurchase agreements and other similar secured borrowing	3	186,395	5,210	1,554	72	183	36	-	193,453
Trading portfolio liabilities	28,632	-	-	-	-	-	-	-	28,632
Financial liabilities designated at fair value	1,104	12,782	5,848	12,902	11,412	34,107	12,581	10,333	101,069
Derivative financial instruments	532,648	334	38	44	56	1,052	570	1,095	535,837
Debt securities in issue	18	32,157	8,590	3,671	5,379	19,830	11,691	2,603	83,939
Subordinated liabilities	-	-	-	-	764	166	13,386	12,448	26,764
Other financial liabilities	-	12,973	-	-	232	-	-	-	13,205
Total financial liabilities	785,552	532,657	27,376	34,781	25,787	68,270	42,628	30,152	1,547,203
Other liabilities									4,641
Total liabilities									1,551,844
Cumulative liquidity gap	(52,017)	(126,290)	(133,409)	(137,631)	(131,850)	(102,650)	(80,020)	14,691	50,759

Expected maturity dates do not differ significantly from the contract dates, except for:

- Trading portfolio assets and liabilities and derivative financial instruments, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by the Investment Bank, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology;
- Retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – both numerically and by depositor type (see Behavioural Maturity Profile on page 81); and
- Financial assets designated at fair value held in respect of linked liabilities, which are managed with the associated liabilities.

Contractual maturity of financial liabilities on an undiscounted basis (audited)

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values).

The balances in the below table do not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

Derivative financial instruments held for trading and trading portfolio liabilities are included in the on demand column at their fair value.

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as the Group is not exposed to liquidity risk arising from them.

Risk review

Funding risk - Liquidity

All disclosures in this section are unaudited and exclude Absa Group unless otherwise stated

Contractual maturity of financial liabilities - undiscounted (audited) As at 31 December 2012	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
The Group (including Absa Group)					
Deposits from banks	8,619	59,675	7,629	1,267	77,190
Items in the course of collection due to other banks	1,449	124	-	-	1,573
Customer accounts	255,836	113,516	14,492	3,624	387,468
Repurchase agreements and other similar secured borrowing	394	215,599	1,357	-	217,350
Trading portfolio liabilities	44,794	-	-	-	44,794
Financial liabilities designated at fair value	1,434	21,380	35,753	24,301	82,868
Derivative financial instruments	459,334	144	1,193	2,079	462,750
Debt securities in issue	1,523	60,396	46,742	16,566	125,227
Subordinated liabilities	-	1,948	6,284	24,670	32,902
Other financial liabilities	-	4,080	641	-	4,721
Total financial liabilities	773,383	476,862	114,091	72,507	1,436,843
Off-balance sheet items					
Loan commitments	121,522	42,587	78,962	4,996	248,067
Other commitments	170	714	110	50	1,044
Total off-balance sheet items	121,692	43,301	79,072	5,046	249,111
Total financial liabilities and off-balance sheet items	895,075	520,163	193,163	77,553	1,685,954
The Bank					
Deposits from banks	21,316	58,159	3,931	415	83,821
Items in the course of collection due to other banks	999	232	-	-	1,231
Customer accounts	215,867	225,220	34,511	7,735	483,333
Repurchase agreements and other similar secured borrowing	21,196	164,612	1,359	-	187,167
Trading portfolio liabilities	30,105	-	-	-	30,105
Financial liabilities designated at fair value	1,191	24,478	45,471	26,898	98,038
Derivative financial instruments	463,468	101	1,044	1,992	466,605
Debt securities in issue	20	44,433	32,382	12,206	89,041
Subordinated liabilities	-	1,659	5,184	24,140	30,983
Other financial liabilities	-	12,578	99	-	12,677
Total financial liabilities	754,162	531,472	123,981	73,386	1,483,001
Off-balance sheet items					
Loan commitments	84,761	23,963	78,184	4,373	191,281
Other commitments	64	589	83	9	745
Total off-balance sheet items	84,825	24,552	78,267	4,382	192,026
Total financial liabilities and off-balance sheet items	838,987	556,024	202,248	77,768	1,675,027

Contractual maturity of financial liabilities - undiscounted (audited)					
At 31 December 2011	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
The Group (including Absa Group)					
Deposits from banks	7,866	81,308	1,651	409	91,234
Items in the course of collection due to other banks	965	4	–	–	969
Customer accounts	213,935	139,620	9,417	5,659	368,631
Reverse repurchase agreements and other similar secured lending	23	207,000	257	41	207,321
Trading portfolio liabilities	45,887	–	–	–	45,887
Financial liabilities designated at fair value	1,525	28,147	39,458	30,744	99,874
Derivative financial instruments	524,439	828	1,512	2,333	529,112
Debt securities in issue	75	74,952	40,983	21,754	137,764
Subordinated liabilities	–	1,003	4,456	27,583	33,042
Other financial liabilities	–	3,641	1,594	–	5,235
Total financial liabilities	794,715	536,503	99,328	88,523	1,519,069
Off-balance sheet items					
Loan commitments	223,622	12,071	3,549	1,126	240,368
Other commitments	364	793	198	6	1,361
Total off-balance sheet items	223,986	12,864	3,747	1,132	241,729
Total financial liabilities and off-balance sheet items	1,018,701	549,367	103,075	89,655	1,760,798
The Bank					
Deposits from banks	27,316	78,777	2,269	583	108,945
Items in the course of collection due to other banks	962	4	–	–	966
Customer accounts	194,869	234,091	19,311	8,479	456,750
Reverse repurchase agreements and other similar secured lending	3	193,182	257	38	193,480
Trading portfolio liabilities	28,632	–	–	–	28,632
Financial liabilities designated at fair value	1,104	32,849	49,182	32,453	115,588
Derivative financial instruments	532,648	705	1,462	2,325	537,140
Debt securities in issue	18	45,697	28,034	15,559	89,308
Subordinated liabilities	–	875	4,163	29,464	34,502
Other financial liabilities	–	12,973	232	–	13,205
Total financial liabilities	785,552	599,153	104,910	88,901	1,578,516
Off-balance sheet items					
Loan commitments	179,028	10,955	2,867	388	193,238
Other commitments	219	720	167	–	1,106
Total off-balance sheet items	179,247	11,675	3,034	388	194,344
Total financial liabilities and off-balance sheet items	964,799	610,828	107,944	89,289	1,772,860

Risk review
Operational risk

All disclosures in this section are unaudited

Operational Risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events.

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

The Principal Risk comprises the following Key Risks: CyberSecurity Risk, External Suppliers, Fraud, Financial Reporting, Information, Legal, Product, Payments, People, Premises & Security, Regulatory, Taxation, Technology and Transaction operations.

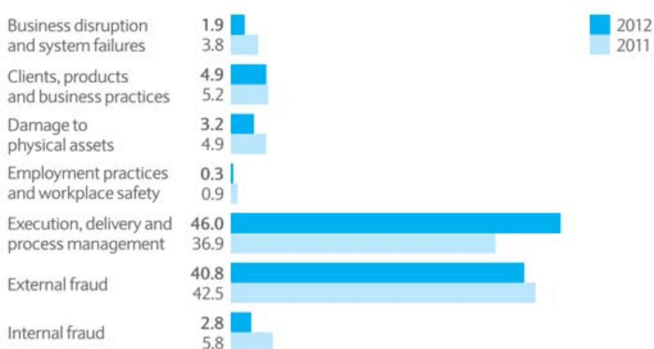
Operational risk profile

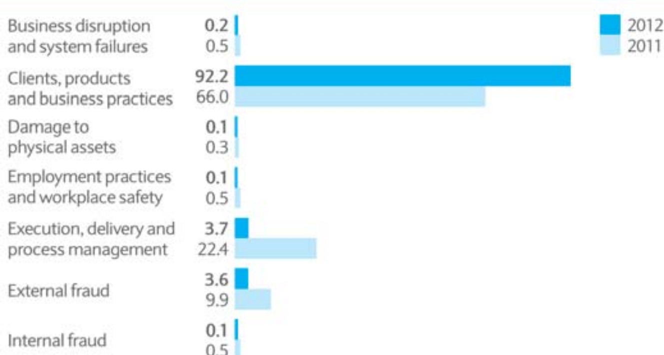
The Barclays operational risk profile in 2012 was dominated by the penalties in respect of LIBOR and EURIBOR submissions (£290m) and provisions for PPI (£1.6bn) and interest rate hedging product redress (£850m).

The Group's operational risk profile is informed by bottom-up risk assessment by Business Unit and top-down qualitative review from the Operational Risk Committee. This continues to highlight Clients, Products and Business Practices as a key operational risk exposure. CyberSecurity risk is an area identified for increased focus which has driven the introduction of a new key risk category and impacts business disruption and system failures and external fraud risk events.

Operational risk events by risk category by: (i) number of events; and (ii) value of events, are shown below.

Within operational risk a high proportion of risk events have a low associated financial cost and a very small proportion of operational risk events will have a material impact on results of operations and financial conditions of the Group. In 2012 74.7% of the Group's net operational risk losses had a value of £50,000 or less (2011: 70.4%) and accounted for only 1.3% of the Group's total net loss impact. The analysis below presents Barclays operational risk events by Basel 2 category. There has been an increase in the proportion of losses by amount within the Clients, products and business practices category to 92.2% (2011: 65.9%), driven by penalties relating to the industry-wide investigation into the setting of interbank offered rates, provisions for PPI and interest rate hedging product redress. In 2012, Execution, delivery and process management (46.1%) and External fraud (40.8%) remain the categories with the highest frequency of events. Execution, delivery and process management events are common to the banking industry where high volumes of transactions are processed on a daily basis. These are often fully or partially recovered, resulting in low value net losses. High volume, low value external fraud events are also consistent with industry experience, driven by debit and credit card fraud. These remained within the expected levels during 2012.





Risk review
Reputation risk

All disclosures in this section are unaudited

Reputation risk is the risk of damage to Barclays brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical.

Such damage reduces, directly or indirectly, the attractiveness of Barclays to stakeholders and may lead to negative publicity; loss of revenue; litigation; regulatory or legislative action; loss of existing and potential client business; reduced workforce morale; and difficulties in recruiting talent. Sustained reputational damage could have a materially negative impact on our licence to operate and destroy significant shareholder value.

Reputation risk is broadly triggered by failure to comply with either stated or expected norms in two ways:

- As an additional consequence of not applying other risk controls; and
- As a consequence of otherwise inappropriate behaviour, where there is no breach of control, law or regulation, but the decision or behaviour is generally regarded as unethical or inconsistent with our values.

Assessments of reputation risk cannot be static as they are driven by evolving norms and are composed of risks that can take numerous diverse forms. For example, risk can arise from:

- Association with controversial clients or sectors: for example, if Barclays provided funding or services to a client connected with (or perceived to be connected with) controversial activities;
- Operating or doing business in an inappropriate manner: for example, if Barclays paid bribes to secure commercial advantages; and
- Past, present or potential failures in corporate governance or management: for example, if Barclays provided funding or services to clients without fully implementing anti-money laundering precautions.

Managing reputation risk on a day-to-day basis is the direct responsibility of the individuals involved in making commercial decisions in their respective businesses or functions. Every member of staff must take responsibility, so the foundation of our approach is to clearly establish our goals, purposes and value and ensure that all individuals across the organisation deliver in a way consistent with that culture.

Where individuals are confronted by a decision which appears to have wider reputational consequences, they will be supported by a clear set of rules and processes that provide a clear articulation of the expectations for how people should identify and manage risk consistently, including how to escalate the issue.

Recognising that Barclays has one global brand, management of reputation risk cannot be ring-fenced and allocated to a single global 'owner'. However, where truly difficult decisions with the potential to materially affect the Bank are escalated, they will be dealt with by a committee of senior executives (Barclays Reputation Council).

In 2012, Barclays experienced a number of reputation-impacting events. Many of these events were the result of prior years' decisions and behaviours, and included executive remuneration, the industry-wide investigation into the setting of interbank offered rates such as LIBOR, and the mis-selling of PPI to consumers and interest rate hedging products to business customers.

We sought to manage the impact of these events to restore trust in Barclays. In addition, as part of our Transform Programme, we have tried to learn from these events and understand their drivers so that we can better prevent events going forward. Key lessons and areas where we will continue to make improvements include:

- Visibly principled leadership;
- Values-based assessment and rewards;
- Strong and integrated governance; and
- Broad, active and on-going bilateral stakeholder engagement.

Barclays began to revise its approach to reputation risk comprehensively and holistically in 2012. In order to strengthen the governance relating to reputation matters, we have recategorised reputation risk as a new Principal Risk and have created a Board Conduct, Reputation and Operational Risk Committee in 2013. The Barclays Reputation Council created a Bank wide Reputation Risk Control Framework and Reputation Risk Impact/Control Policy, both of which were approved by the Board. The Council has also delivered training on reputation risk to senior executives across the bank to ensure the knowledge and culture is embedded.

We will continue to strengthen foundations, enhance governance and improve proactive risk identification/remediation throughout 2013.

Risk review
Conduct risk

All disclosures in this section are unaudited

Conduct Risk is the risk that detriment is caused to our customers, clients or counterparties because of the inappropriate execution of our business activities.

The restructuring of the FSA has led to a focus on conduct risk. This is intended to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes.

The FSA and, from 1 April 2013 the Financial Conduct Authority (FCA), expects regulated firms to be able to focus holistically on conduct risk and to report internally to management and to regulators on conduct risk which the FCA will assess through the Firm Systematic Framework. This necessitates a new approach and Barclays has proactively initiated a number of initiatives in order to ensure that it both meets business needs and the expectations of regulators and other stakeholders.

In 2012 there were a number of conduct risk issues affecting the group, as set out under regulatory risk and legal risk in the risk factors section on page 19.

In response, during 2013 we have specifically recategorised conduct risk as a Principal Risk which will be under the supervision of Sir Hector Sants, Head of Compliance & Government & Regulatory Relations. In order to strengthen the governance relating to conduct matters we will be creating a Board Conduct, Reputation and Operational Risks Committee. The Committee will meet quarterly under the auspices of the Chairman of the Group. We will also establish a management Committee to focus on Conduct risk.

We will continue building out and embedding a new framework for conduct risk management and have established a group wide programme to deliver this outcome. The programme has executive Committee sponsorship from the Head of Compliance and Regulatory and Government Relations. The components of the programme include:

- Design and rollout: design and embedding of a new conduct risk principal risk in accordance with the group principal risks policy;
- Strategy and Management information: assessing how best to feed conduct risk appetite into strategic decision-making and developing management information to support decision making and facilitate the monitoring of the Conduct risk profile against appetite; and
- Conduct risk assessment: assessing the current state of controls within each business to capture what we do well and identify where we must improve.

The programme will look to build on and enhance the work already done in this area, for example in Treating Customers Fairly and Complaints Handling. It will also take account of emerging regulatory developments following the legal creation of the FCA.

To enhance further our conduct risk framework, in 2013 Barclays will issue and publish a new, comprehensive, Code of Conduct.

Risk review
Supervision and regulation

All disclosures in this section are unaudited

Supervision and regulation

Supervision of the Group

The Group's operations, including its overseas offices, subsidiaries and associates, are subject to a significant body of rules and regulations that are a condition for authorisation to conduct banking and financial services business. These apply to business operations and affect financial returns and include reserve and reporting requirements and prudential and conduct of business regulations. These requirements are set by the relevant central banks and regulatory authorities that supervise the Group in the jurisdictions in which it operates. The requirements reflect global standards developed by, among others, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. They also reflect requirements of or derived from EU legislation.

In the UK, until 31 March 2013, the Financial Services Authority (FSA) remains the independent body responsible for the regulation and supervision of deposit taking, life insurance, home mortgages, general insurance and investment business.

Following the passage of the Financial Services Act 2012, the Bank of England will have responsibility for monitoring the financial system as a whole and the system of regulation in the UK will be reorganised. From 1 April 2013, the regulation and supervision of the Group will be divided between the Prudential Regulation Authority (PRA) – which is established as a subsidiary of the Bank of England – and the Financial Conduct Authority (FCA). In addition, the Financial Policy Committee (FPC) of the Bank of England will have significant influence on the prudential requirements that may be imposed on the banking system. It is also intended that it will have a number of macro-prudential tools at its disposal that may be used to vary the prudential requirements to which the Group is subject, including the power to vary the counter-cyclical capital buffer and to vary sectoral capital requirements. Further details on the reform of regulation in the UK can be found below.

The Financial Services and Markets Act 2000 (FSMA) as amended remains the principal statute under which financial institutions are regulated in the UK. Barclays Bank PLC is authorised under the FSMA to carry on a range of regulated activities within the UK and is subject to consolidated prudential supervision by the FSA and, from 1 April, by the PRA. In its role as supervisor, the FSA seeks to maintain the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers and the financial system. The FSA's continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. This will remain the case under the PRA.

Firms are subject to a rolling programme of continuous intensive and intrusive engagement on prudential and conduct matters. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities, liquidity and rules of business conduct. From 1 April 2013, the regulation and supervision of conduct matters will be assumed by the FCA.

The Banking Act 2009 (the Banking Act) provides a regime to allow the Bank of England (or, in certain circumstances, HM Treasury) to resolve failing banks in the UK, in consultation with the FSA and HM Treasury as appropriate. Under the Banking Act, these authorities are given powers, including (a) the power to make share transfer orders pursuant to which all or some of the securities issued by a UK bank may be transferred to a commercial purchaser or the UK government; and (b) the power to transfer all or some of the property, rights and liabilities of a UK bank to a commercial purchaser or Bank of England entity. A share transfer order can extend to a wide range of securities including shares and bonds issued by a UK bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such shares and bonds. From 1 April 2013, certain of these powers will be extended to companies within the same group as a UK bank. The Banking Act also gives the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers. The Banking Act powers apply regardless of any contractual restrictions and compensation may be payable in the context of both share transfer orders and property appropriation.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for HM Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect. In addition, the Banking Act gives the Bank of England statutory responsibility for financial stability in the UK and for the oversight of payment systems.

The Financial Services Act 2010, among other things, requires the UK regulator to make rules about remuneration and to require regulated firms to have a remuneration policy that is consistent with both effective risk management and the standards issued by the Financial Stability Board. The FSA is mandated to make rules that require authorised firms (or a subset of authorised firms) to draw up recovery and resolution plans and to consult with HM Treasury and the Bank of England on the adequacy of firms plans. This Act also allows the FSA to make rules requiring firms to operate a collective consumer redress scheme to deal with cases of widespread failure by regulated firms to meet regulatory requirements that may have created consumer detriment.

In addition to establishing the FPC, PRA and FCA, the Financial Services Act 2012 among other things, clarifies responsibilities between HM Treasury and the Bank of England in the event of a financial crisis by giving the Chancellor of the Exchequer powers to direct the Bank of England where public funds are at risk and there is a serious threat to financial stability; it establishes the objectives and accountabilities of the new regulatory bodies; amends the Threshold Conditions for authorisation; and gives the new bodies additional powers, including powers of direction over the unregulated parent undertakings (such as Barclays PLC) where this is necessary to ensure effective consolidated supervision of the Group; and a power for the FCA to make temporary product intervention rules for a maximum period of six months, if necessary without consultation. The Act also gives the FCA the power to set rules in relation to the setting of benchmarks and creates a new criminal offence relating to the making of a false or misleading statement, or the creation of false or misleading impression, in connection with the setting of a benchmark.Banks, insurance companies and other financial

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institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme – FSCS) which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group's results. Further details can be found in Note 29 on page 195.

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain, Switzerland, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Financial Services Agency of Japan, the Australian Securities and Investments Commission, the Monetary Authority of Singapore, the China Banking Regulatory Commission and the Reserve Bank of India); Africa and the Middle East (various regulatory authorities including the South African Reserve Bank) and the United States of America (including the Board of Governors of the Federal Reserve System (FRB), the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC)).

Regulation in the UK is considerably shaped and influenced by EU directives and regulations. These provide the structure of the European Single Market, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one EU member state to conduct banking or investment business through the establishment of branches or by the provision of services on a cross-border basis in other member states without the need for local authorisation. Barclays operations in Europe are authorised and regulated by a combination of both home and host regulators.

Barclays operations in South Africa, including Absa Group Limited, are supervised and regulated by mainly the South African Reserve Bank (SARB), the Financial Services Board (FSB) as well as the Department of Trade and Industry (DTI). SARB oversees the banking industry and follows a risk-based approach to supervision, whilst the FSB oversees the non-banking financial services industry such as insurance and investment business and focuses on enhancing consumer protection and regulating market conduct. The DTI regulates consumer credit through the National Credit Act (NCA) 2005, as well as other aspects of consumer protection not regulated under the jurisdiction of the FSB through the Consumer Protection Act (CPA) 2008. It is intended that regulatory responsibilities in South Africa will in future be divided between the SARB which will be responsible for prudential regulation and the FSB will be responsible for matters of market conduct. The precise timing for the move to "twin peaks" regulation remains to be determined.

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US banking subsidiaries are subject to a comprehensive regulatory framework involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended (BHC Act), the Foreign Bank Supervision Enhancement Act of 1991, the Financial Services Modernization Act of 1999, the USA PATRIOT Act of 2001 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA). This framework regulates the activities of Barclays, including its US banking subsidiaries and the US branches of Barclays Bank PLC, as well as imposing prudential restrictions, such as limits on extensions of credit by the Bank's US branches and the US banking subsidiaries to a single borrower and to affiliates. The New York and Florida branches of Barclays Bank PLC are subject to extensive federal and state supervision and regulation by the FRB and, as applicable, the New York State Department of Financial Services and the Florida Office of Financial Regulation . Barclays Bank Delaware, a Delaware chartered commercial bank, is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Delaware State Bank Commissioner and the Consumer Financial Protection Bureau. The deposits of Barclays Bank Delaware are insured by the FDIC. Barclays Wealth Trustees (US) NA is an uninsured non-depository trust company chartered and supervised by the Office of Comptroller of the currency (OCC). The licensing authority of each US branch of Barclays Bank PLC has the authority, in certain circumstances, to take possession of the business and property of Barclays Bank PLC located in the state of the office it licenses or to revoke or suspend such license. Such circumstances generally include violations of law, unsafe business practices and insolvency.

Barclays PLC and Barclays Bank PLC are bank holding companies registered with the FRB, which exercises umbrella authority over Barclays US operations. Barclays PLC and Barclays Bank PLC have each elected to be treated as a financial holding company under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to registered bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. Financial holding companies such as Barclays PLC and Barclays Bank PLC are required to meet or exceed certain capital ratios and be deemed to be 'well managed', and Barclays Bank Delaware and Barclays Wealth Trustees (US) NA are each required to meet certain capital requirements and be deemed to be 'well managed'. In order for Barclays PLC and Barclays Bank PLC to maintain their status as financial holding companies, Barclays Bank Delaware must be both 'well capitalised' and 'well managed' under applicable regulatory standards. In addition, Barclays Bank Delaware must have at least a 'satisfactory' rating under the Community Reinvestment Act of 1977 (CRA). Entities ceasing to meet any of these requirements, are allotted a period of time in which to restore capital levels or the management or CRA rating. Should Barclays PLCs or Barclays Bank PLCs fail to meet the above requirements, during the allotted period of time they could be prohibited from engaging in new types of financial activities or making certain types of acquisitions. If the capital level or rating is not restored, the Group may be required by the FRB to cease certain activities in the United States.

Under the Federal Deposit Insurance Act of 1950, as amended by the DFA, Barclays is required to act as a source of financial strength for Barclays Bank Delaware. This could, among other things, require Barclays to inject capital into Barclays Bank Delaware if it fails to meet minimum regulatory capital requirements.

A major focus of US government policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. Regulations applicable to US operations of Barclays Bank PLC and its subsidiaries impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to ensure compliance with US economic sanctions against designated foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution. On August 16, 2010, the United States filed in the United States District Court for the District of Columbia a criminal Information against Barclays, which alleged violations of U.S. sanctions laws. The United States and Barclays simultaneously entered into a Deferred Prosecution Agreement (DPA), pursuant to which the United States agreed to defer prosecution for a period of two years, provided that Barclays complied with various undertakings, including undertakings relating to cooperation and remediation. The DPA provided that if Barclays complied with those undertakings, the United States would move to dismiss the information. On August 31, 2012, the United States moved the Court to dismiss the information with prejudice on the ground that Barclays had "fully cooperated with the United States, complied with all of its obligations under the DPA, and not otherwise violated the DPA." On November 30, 2012, the Court granted the motion to dismiss.

Barclays US securities broker/dealer, investment advisory and Investment banking operations are subject to ongoing supervision and regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations (SROs) as part of a comprehensive scheme of regulation of all aspects of the securities and commodities business under the US federal and state securities laws. Similarly, Barclays US commodity futures and options-related operations are subject to ongoing supervision and regulation by the CTFC, the National Futures Association and other SROs.

The credit card-related activities of the Group in the US are subject to the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (Credit CARD Act) which was enacted by Congress in May 2009 to prohibit certain credit card pricing and marketing practices for consumer credit card accounts. Among the numerous provisions are those that prohibit increasing rates on existing balances and over limit fees in most instances, restrict increasing fees and rates prospectively, restrict what penalty fees can be assessed, regulate how payments are to be allocated to different balances and how the billing process is to work, and revises all communications to cardholders.

Regulatory developments

The regulatory change generated by the financial crisis is having and will continue to have a substantial impact on all financial institutions, including the Group. The full impact of this change remains unclear, but will be significant. Regulatory change is being pursued at a number of levels, globally notably through the G20, Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), regionally through the European Union and nationally, especially in the UK and US. Increased prudential requirements and changes to the definitions of capital and liquid assets may affect the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. Similarly, increased requirements in relation to capital markets activities and to market conduct requirements may affect the Group's planned activities and could increase costs and thereby contribute to adverse impacts on the Group's earnings.

Global

The programme of reform of the global regulatory framework that was agreed by G20 Heads of Government in April 2009 has continued to be taken forward during 2012.

The FSB has been designated by the G20 as the body responsible for co-ordinating the delivery of the global reform programme. It has focused particularly on the risks posed by systemically important financial institutions. In 2011, G20 Heads of Government adopted FSB proposals to reform the regulation of globally systematically important financial institutions (G-SIFIs). A key element of this programme is that G-SIFIs should be capable of being resolved without recourse to taxpayer support. Barclays has been designated a G-SIFI by the FSB. G-SIFIs will be subject to:

– The FSB's international standard for national resolution regimes, Key Attributes of Effective Resolution Regimes for Financial Institutions. Among other things, this seeks to give resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator-determined point of non-viability that may precede insolvency. The concept of bail-in may affect the rights of senior unsecured creditors subject to any bail-in in the event of a resolution of a failing bank;
– Requirements for resolvability assessments and for recovery and resolution planning;
– Requirements for banks determined to be globally systemically important to have additional loss absorption capacity above that required by Basel 3 standards (see below). The surcharges rise in increments from 1% to 2.5% of risk weighted assets (with an empty bucket of 3.5% to discourage institutions from developing their business in a way that heightens their systemic nature). This additional buffer must be met with common equity;
– More intensive supervision, including through stronger supervisory mandates, resources and powers, and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls; and
– G-SIFIs are subject to enhanced supervision and a comprehensive crisis management framework within supervisory colleges.

In its November 2012 list of G-SIFIs, the FSB placed Barclays in a bucket that would require it to meet a 2% surcharge. The additional loss absorbency requirements will apply to those banks identified in November 2014 as globally systemically important and will be phased in starting in January 2016, with full implementation by January 2019. G-SIFIs must also meet the higher supervisory expectations for data aggregation capabilities by January 2016. In October 2012, the FSB and BCBS finalised a principles based framework for domestic systemically important banks (D-SIBs). National authorities will begin to apply requirements to banks identified as D-SIBs from January 2016 in line with the phase in arrangements for G-SIFIs.

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The FSB continues to pursue a number of work streams that will affect the Group, its counterparties and the markets in which it operates. These include policy work on shadow banking and on enhanced disclosures.

The BCBS issued the final guidelines on Basel 3 capital and liquidity standards in December 2010, with revisions to counterparty credit risk in July and November 2011. It has continued to refine elements of this package, notably in relation to regulatory liquidity where revisions were agreed in January 2013 to the definitions of high quality liquid assets and net cash outflows for the purpose of calculating the Liquidity Coverage Ratio, as well as establishing a timetable for phasing-in the standard from January 2016. The requirements of Basel 3 as a whole are subject to a number of transitional provisions that run to the end of 2018. An assessment of the likely impact of the Basel 3 capital, leverage and liquidity requirements and the Group response can be found in the Finance Director's review, and in the analysis of funding risk in relation to capital and to liquidity (page 68 and page 77 respectively). The Group is, however, primarily subject to the EU's implementation of the Basel 3 standard through the Capital Requirements Directive (see below).

The BCBS also maintains a number of active work streams that will affect the Group. These include a fundamental review of the trading book where a consultation on enhanced capital standards was issued in May 2012. Consultations on enhanced standards were also held in relation to margin requirements for non-centrally cleared derivatives, capital requirements for exposures to central counterparties, the management of risks associated with the settlement of foreign exchange transactions and on the securitisation framework. The results of this work are expected in 2013. The BCBS is also understood to be examining a regime for large exposures. These developments may further increase the capital required by the Group to transact affected business and/or affect the ability of the Group to undertake certain transactions.

European Union

The EU continues to develop its regulatory structure in response to the financial and Eurozone crises. At the December 2012 meeting of EU Finance Ministers, following the Euro Area Summit of 29 June, it was agreed to establish a single supervisory mechanism within the Eurozone. The European Central Bank (ECB) will have responsibility for the supervision of the most significant Eurozone credit institutions, financial holding companies or mixed financial holding companies. The ECB may extend its supervision to institutions of significant relevance that have established subsidiaries in more than one participating member state and with significant cross-border assets or liabilities. It is expected that the single supervisory mechanism will become operational in 2014.

The European Banking Authority which came into being on 1 January 2011, along with the other European Supervisory Authorities, remains charged with the development of a single rulebook for the EU as a whole and with enhancing co-operation between national supervisory authorities. The European Securities Markets Authority has a similar role in relation to the capital markets and to banks and other firms doing investment and capital markets business. The progressive reduction of national discretion on the part of national regulatory authorities within the EU may lead to the elimination of prudential arrangements that have been agreed with those authorities. This may serve to increase or decrease the amount of capital and other resources that the Group is required to hold. The overall effect is not clear and may only become evident over a number of years. The European Banking Authority and the European Securities Markets Authority each have the power to mediate between and override national authorities under certain circumstances. Responsibility for day to day supervision remains with national authorities and for banks, like the Group, that are incorporated in countries that will not participate in the single supervisory mechanism, is expected to remain so.

Basel 3 will be implemented in the EU by amendment to the Capital Requirements Directive (CRD IV). Formal proposals to amend the CRD IV were adopted by the European Commission in July 2011. These take the form of a regulation and a directive which are currently going through the EU legislative process. It had been expected that CRD IV would enter into force on 1 January 2013. However, delays in the legislative process mean that this date has been missed and no further implementation date has been specified. Much of the detailed implementation is expected to be done through binding technical standards to be developed by the European Banking Authority, that are intended to ensure a harmonised application of rules through the EU but which have yet to be developed. While there may be some differences between CRD IV and Basel 3, the current expectation is that the overall impact will be broadly similar.

A significant addition to the EU legislative framework for financial institutions is the proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms. This proposal is intended to implement many of the requirements of the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions. The proposal would give resolution authorities extensive powers to "bail-in" liabilities (i.e. write down liabilities or convert them to equity) and firms would need a minimum percentage of liabilities in a form that allows them to be subject to "bail-in". The proposal also requires the development of recovery and resolution plans at group and firm-level. The proposal sets out a harmonised set of resolution tools across the EU, including the power to impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts. There are also significant funding implications for financial institutions: the proposal envisages the establishment of pre-funded resolution funds of 1% of covered deposits to be built up over 10 years, although the proposal also envisages that national deposit guarantee schemes may be able to fulfil this function. The proposal is currently going through the legislative process and the financial impact on the Group is not yet clear.

An unrelated proposal to amend the Directive on Deposit Guarantee Schemes is also being considered, and the linkage that has emerged with the Recovery and Resolution Directive remains to be clarified. The proposal on Deposit Guarantee schemes also envisages that national schemes should be pre-funded, with a fund to be raised over a number of years. This would be a significant change for UK banks where levies are currently raised as needed after failure. The proposals remain under debate and the financial impact on the Group is not yet clear.

In October 2012, a group of experts set up by the European Commission to consider possible reform of the structure of the EU banking sector presented its report. Among other things, the group recommended the mandatory separation of proprietary trading and other high-risk trading activities from other banking activities. The European Commission has consulted on the proposals put forward

by this group, but has yet to determine whether it will take these forward and, if so, how. It is expected that the European Commission will clarify its intentions later this year.

The European Market Infrastructure Regulation (EMIR) introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. When it enters fully into force, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: report every derivative contract that they enter to a trade repository; implement new risk management standards, including operational processes and margining, for all bilateral over-the-counter derivatives trades that are not cleared by a central counterparty; and clear, through a central counterparty, over-the-counter derivatives that are subject to a mandatory clearing obligation. EMIR has potential operational and financial impacts on the group, including collateral requirements. However, not all the implementing regulation is available and it is not possible at this stage to determine the full impact.

Proposals to amend the Markets in Financial Instruments Directive continue to be debated. This will affect many of the investment markets in which the Group operates and the instruments in which it trades, and how it transacts with market counterparties and other customers. These proposals are currently going through the legislative process and the overall impact on the Group is not yet clear.

United Kingdom

Following the passage of the Financial Services Act 2012 which amended the structure of regulation and supervision in the UK as described above, the Government is proposing legislation to take forward the proposals of the Independent Commission on Banking (ICB). On 4 February 2013, the UK Government introduced the Financial Services (Banking Reform) Bill to the House of Commons. The Bill would give the UK authorities the powers to implement the key recommendations of the ICB by requiring, amongst other things: (i) the separation of the UK and EEA retail banking activities of a UK bank in a legally distinct, operationally separate and economically independent entity within the same group (“ring fencing”) and (ii) the increase of the loss-absorbing capacity of ring-fenced banks and UK headquartered global systemically important banks to levels higher than the Basel 3 guidelines. The Bill would also give depositors protected under the Financial Services Compensation Scheme preference if a bank enters insolvency. At the same time, the Government announced that it will be bringing forward amendments to the Bill to establish a reserve power allowing the regulator, with approval from the Government, to enforce full separation under certain circumstances. The Bill consists in large part of enabling provisions, with much of the detail expected to be contained in secondary legislation. The Government is expected to publish the draft secondary legislation later this year. The Government intends that primary and secondary legislation will be in place by the end of this Parliament (May 2015) and that UK banks will be required to be compliant by 1 January 2019.

The Parliamentary Commission on Banking Standards was formed in July 2012. The Commission is appointed by both Houses of Parliament to consider and report on:

– professional standards and culture of the UK banking sector, taking account of regulatory and competition investigations into the LIBOR rate-setting process; and
– lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for Government policy and to make recommendations for legislative and other action.

The recommendations of the Commission are expected in March 2013 and are likely to influence UK Government policy and legislative proposals, possibly through amendment to the Banking Reform Bill and its accompanying secondary legislation which will be under debate through much of 2013.
While the new regulatory structure takes effect on 1 April, the UK has sought to “shadow” the new regime to the extent possible without the support of the necessary legislation. The Bank of England has operated an Interim FPC and the FSA, since 1 April 2012, has been operating in two distinct and largely autonomous business units covering prudential and conduct matters respectively. The FPC has recommended that the FSA should seek to ensure that UK banks hold greater levels of capital as a means of balancing financial stability with the desirability of lending to the real economy. Both business units of the FSA have continued to develop and apply a more intrusive and assertive approach to supervision and its policy of credible deterrence in relation to enforcement that has continued to see significant growth in the size of regulatory fines. In anticipation of international agreement, the FSA has established and implemented capital and liquidity requirements that are substantially increased from pre-crisis levels, and has, together with the Bank of England, proceeded to establish Recovery and Resolution Planning requirements. In keeping with the requirements of the FSB, the Group submitted its Recovery and Resolution Plan by 30 June 2012. The Retail Distribution Review entered into force on 1 January 2013 and the Mortgage Market Review will apply from 26 April 2014. These will affect the economics of investment advice and home finance provision respectively. The FSA, following consultation, has also begun to take a more interventionist approach to the design of financial products and to the governance processes around product design. This approach will be carried through into the FCA when it is established.

United States

The DFA became law in July 2010. The full scale of the DFA’s impact on the Group remains unclear because the rules required to implement many of the provisions of DFA continue to be subject to rulemaking and will take effect over several years. In addition, market practices and structures may change in response to the requirements of the DFA in ways that are difficult to predict but that could impact Barclays business. Nonetheless, certain provisions of the DFA are particularly likely to have an effect on the Group, including:

– Systemic risk: The DFA created the Financial Stability Oversight Council (FSOC) and empowered it to make recommendations to the FRB to apply heightened supervisory requirements and prudential standards applicable to “systematically important” entities and activities and to work with all primary financial regulatory agencies to establish regulations, as necessary, to address financial stability concerns. In December 2012, the FRB issued proposed rules that, if adopted, would implement the enhanced prudential standards and early remediation requirements in the DFA with respect to foreign banking organisations, such as Barclays, and other foreign financial companies designated by the FSOC as systemically important. Previously, the FRB had issued proposed rules to implement such standards and requirements with respect to US bank

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holding companies with over US$50bn in consolidated assets and other US financial companies designated by the FSOC as systemically important. The proposed rules for foreign banking organisations are broadly consistent with the approach taken in the FRB's proposed rules applicable to such US companies.

The specific requirements applicable to foreign banking organisations under the proposed rules depend on the level of assets of the foreign banking organisation both inside and outside the United States and could significantly increase the regulatory costs to such organisations of operating in the United States, particularly in relation to non-bank operations. Based on its total US and non-US assets, Barclays would be subject to the most stringent requirements of the proposed rules: Barclays would be required to create a US intermediate holding company (IHC) structure to hold its US banking and non-banking subsidiaries, and the IHC would be subject to supervision and regulation by the FRB. While the operations and assets of Barclays Bank PLC's US branches would not be required to be held in the IHC, the branches would be subject to separate requirements.

The IHC would be subject to a number of separate supervisory, prudential and early-remediation requirements, including (i) capital requirements and leverage limits; (ii) mandatory stress testing of capital levels by the FRB and submission of a capital plan to the FRB; (iii) limitations on capital distributions by the IHC to its parent company, unless such distributions are part of such a capital plan that has been submitted to and approved by the FRB; (iv) substantive liquidity requirements, including requirements to conduct monthly internal liquidity stress tests for the IHC and for Barclays Bank PLC's US branch network, separately, and to maintain a 30-day buffer of highly liquid assets; (v) liquidity risk management requirements, including compliance with liquidity risk management standards established by the FRB and an independent review function to review and evaluate regularly the adequacy and effectiveness of the liquidity risk management practices of Barclays combined US operations; (vi) overall risk management requirements, including creation of a US risk committee (or use of Barclays enterprise-wide risk committee for this function, provided it meets certain requirements) and the hiring of a US chief risk officer, and (vii) stringent concentration and credit exposure limits.

The proposals envisage that the above requirements would take effect on 1 July 2015. If adopted in their current form, the proposed rules have the potential to increase the absolute and regulatory costs of Barclays US operations significantly. The proposals are subject to a public comment period, and the FRB has posed a number of questions regarding how to implement the proposed rules. As a result of this process, the FRB may modify its proposals, which could result in changes to the requirements and the ultimate effect of the proposed rules. It, therefore, is not possible to determine with certainty what effect the proposed rules (or the final rule adopted by the FRB) may have on Barclays or its US operations;

- Other enhanced prudential requirements: In addition to the requirements that would be implemented under the above proposals, and separate and apart from Basel 3, the DFA also imposes higher capital, liquidity and leverage requirements on US banks and bank holding companies generally.
- Restrictions on proprietary trading and fund-related activities: The so-called "Volcker Rule," will, once effective, significantly restrict the ability of US bank holding companies and their affiliates, and the US branches of foreign banks, to conduct proprietary trading in securities and derivatives as well as certain activities related to hedge funds and private equity funds. In October 2011, US regulators proposed rules to implement the Volcker Rule. Those rules have not yet been finalised. The proposed rules are highly complex and many aspects remain unclear, including the exemption from the proprietary trading and fund-related activity prohibitions for activities conducted by non-US organisations "solely outside the United States." The agencies appeared to construe this exemption very narrowly in the proposed rules. Analysis continues of the proposals, but it is clear that compliance with them would entail significant effort by the Group. Although the Volcker Rule is likely to impose significant additional compliance and operational costs on the Group, the full impact will not be known with certainty until the rules have been finalised. Whilst the Group has identified that its private equity fund, hedge fund and trading operations may be affected by the Volcker Rule, until the final regulations are adopted, the impact on the Group's ability to engage in these activities continues to remain uncertain. As such, it cannot currently be determined whether the restrictions will have a material effect on the Group. While the statutory Volcker Rule provisions officially took effect in July 2012, Barclays has until the end of the conformance period, currently set for July 2014 (subject to possible extensions), in order to conform its activities to the requirements of the rule;
- Resolution plans: The DFA requires bank holding companies with total consolidated assets of US$50bn or more to submit to the FRB and the FDIC, and regularly update, a plan for "rapid and orderly" resolution to be used if the company experiences material financial distress or failure. Non-US banking organisations that are treated as bank holding companies under US law, such as Barclays, are required to submit such plans with respect to their US operations if they have more than US$50bn in US assets. As Barclays US assets exceed US$250bn, it submitted a resolution plan as required by 1 July 2012;

- Regulation of derivatives markets: Among the changes mandated by the DFA are that many types of derivatives now traded in the over-the counter markets be traded on an exchange or swap execution facility and centrally cleared through a regulated clearing house. In addition, many participants in these markets will be required to register with the CFTC as “swap dealers” or “major swap participants” and/or with the US SEC as “securities swap dealers” or “major securities swap dealers” and be subject to CFTC and SEC regulation and oversight. Barclays Bank PLC has registered as a swap dealer. Entities required to register will also be subject to business conduct, capital, margin, recordkeeping and reporting requirements. The DFA also requires most standardised derivatives to be traded on a regulated platform and cleared through a regulated clearing house. In addition, the CFTC, pursuant to the DFA, has adopted rules on position limits on derivatives on physical commodities. These rules have been overturned by a U.S. District Court and the case is now on appeal. However, it is expected that these rules will be adopted in some form in the future. It is also possible that other additional regulations (many of which still are not final), and the related expenses and requirements, will increase the cost of and restrict participation in the derivative markets, thereby increasing the costs of engaging in hedging or other transactions and reducing liquidity and the use of the derivative markets. Barclays Bank PLC and its subsidiaries and affiliates may be exposed to these effects whether or not they are required to register in the capacities described. The new regulation of the derivative markets could adversely affect the business of Barclays Bank PLC and its affiliates in these markets and could make it more difficult and expensive to conduct hedging and trading activities. The DFA also contains a “derivatives push-out” requirement that, as early as July 2013, could prevent the Group from conducting certain swaps-related activities in the US branches of Barclays Bank PLC;
- Risk retention requirements for securitisations: The US federal banking agencies are required by the DFA to develop rules whereby, subject to certain exceptions, any sponsor of an asset backed security (ABS) transaction must retain, generally, not less than five percent of the credit risk of any asset that the sponsor, through the issuance of ABS, transfers, sells or conveys to a third party. This may impact the participation by the Group’s US operations in such transactions; and

  The Bureau of Consumer Financial Protection (CFPB): The CFPB is empowered to regulate the credit card industry, including the terms of credit card agreements with consumers, disclosures, and fees. Actions by the CFPB in this area are likely to impact the Group’s US credit card business. The CFPB became operational in July 2011, and has developed a model credit card disclosure form and is accepting consumer credit card complaints. More broadly, the CFPB has the authority to examine and take enforcement action against any US bank with over US$10bn in total assets, such as Barclays Bank Delaware, with respect to its compliance with Federal laws regulating the provision of consumer financial services and with respect to unfair, deceptive or abusive acts and practices. Since becoming operational, the CFPB has initiated several high-profile public actions against financial companies, including major credit card issuers. Settlements of those actions have included monetary penalties, customer remediation requirements and commitments to modify business practices.

Financial Review

Key performance indicators

The Key Performance Indicators presented below reflect the way in which the performance of the Group has been measured during 2012. In 2013, these will be superseded by new measures consistent with the strategy of the new Executive Committee.

Capital KPIs

Definition	Why is it important to the business and management	
Core Tier 1 ratio Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets as defined by the UK FSA. Core Tier 1 is broadly tangible shareholders' funds less certain capital deductions.	The Group's capital management activities seek to maximise shareholders' value by prudently optimising the level and mix of its capital resources. The Group's capital management objectives are to maintain sufficient capital resources to: ensure the financial holding company is well capitalised relative to the minimum regulatory capital requirements set by the FSA; ensure locally regulated subsidiaries can meet their minimum regulatory capital requirements; support the Group's risk appetite and economic capital requirements; and support the Group's credit rating. During 2012, the Group's Core Tier 1 ratio remained strong at 10.9%.	12 - 10.9% 11 - 11.0%

Returns KPIs

Definition	Why is it important to the business and management	
Profit before tax Profit before tax and adjusted profit before tax are the two primary profitability measures used by management to assess performance. Profit before tax is stated in accordance with International Financial Reporting Standards and represents total income less impairment charges and operating expenses. Adjusted profit before tax represents profit before tax adjusted to exclude the impact on income and costs of own credit, gains on debt buy-backs, gain/loss on disposal of a portion of the Group's strategic investment in Blackrock, Inc., the impairment of the investment in BlackRock, Inc., the provision of Payment Protection Insurance (PPI) and redress, goodwill impairments, and gains and losses on acquisitions and disposals of subsidiaries, associates and joint ventures.	Profit before tax is a key indicator of financial performance to many of our stakeholders. Adjusted profit before tax is presented to provide a consistent basis for company performance between periods. In 2012 adjusted profit before tax increased by 21%.	Statutory 12 - £99m 11 - £5,974m Adjusted 12 - £6,901m 11 - £5,685m

Financial Review

Key performance indicators

The Key Performance Indicators presented below reflect the way in which the performance of the Group has been measured during 2012. In 2013, these will be superseded by new measures consistent with the strategy of the new Executive Committee.

Returns KPIs continued

Definition	Why is it important to the business and management	
Cost Income ratio Cost: income ratio is defined as operating expenses compared to total income net of insurance claims.	This is a measure management uses to assess the productivity of the business operations. Restructuring the cost base is a key execution priority for management and includes a review of all categories of discretionary spending and an analysis of how we can run the business to ensure that costs increase at a slower rate than income. Our aim is to generate £1.7bn of cost savings by 2015. Existing cost initiatives delivered net reductions in operating expenses during 2012, excluding provision for PPI redress and provision for interest rate hedging products redress.	12 - 86% 11 - 64%
Loan loss rate The loan loss rate is quoted in basis points and represents total annualised loan impairment divided by gross loans and advances to customers and bank held at amortised cost at the balance sheet date.	The granting of credit is one of Barclays major sources of income and its most significant risk. The loan loss rate is an indicator of the cost of granting credit. During 2012 the loan loss rate decreased to 75bps (2011: 77bps) reflecting a 6% reduction in impairment charge on loans and advances and a 3% contraction in gross loans and advances principally due to lower balances in the Investment Bank.	12 - 75bps 11 - 77bps

Income growth KPIs

Definition	Why is it important to the business and management	
Total income Defined as total income net of insurance claims.	Total income is a key indicator of financial performance to many of our stakeholders and income growth a key execution priority for Barclays management. Group total income decreased 25% to £25bn, driven by own credit charge of £4.6bn (2011: gain of £2.7bn).	12 - £24,539m 11 - £32,382m
Income by geography Defined as total income net of insurance claims generated in distinct geographic segments. Geographic segmental analysis is based on customer location and the definition of the countries within each region is provided in the glossary.	The goal of increasing the international diversification of our income helps to reduce statutory risk by providing exposure to different economic cycles and is demonstrated by our ratio of non-UK to UK business income.	

Geographic split of income	2012 %	2011 %
UK	**31**	49
Europe	**15**	13
Americas	**32**	19
Africa and the Middle East	**18**	15
Asia	**4**	4

Financial Review

Key performance indicators

The Key Performance Indicators presented below reflect the way in which the performance of the Group has been measured during 2012. In 2013, these will be superseded by new measures consistent with the strategy of the new Executive Committee.

Citizenship KPIs		
Definition	**Why is it important to the business and management**	
Gross new lending to UK households and businesses		
Defined as lending to UK households and those businesses with UK-based activities.	We have remained 'open for business' during the economic downturn, and are focused on lending responsibly to our customers and clients around the world. Supporting customers in difficulty has never been more critical, but providing access to credit must be based on the ability to repay. We provided £44bn in gross new lending to UK households and businesses, including an estimated £5.7bn of net new lending under the Funding for Lending Scheme. Barclays was the leading provider of loans to UK households and businesses under the National Loan Guarantee Scheme and the FLS through the third quarter of 2012[a] with strong growth continuing particularly to individuals and households through the fourth quarter of 2012.	12 - £44.0bn 11 - £45.0bn
Global investment in our communities		
Defined as Barclays total contribution to supporting the communities where we operate.	The success and competitiveness of a business and the extent to which it contributes to and is integrated in the communities in which it operates are closely related. We are committed to maintaining investment in our communities for the long-term both in good times and in bad. This performance metric demonstrates the consistency of our commitment over time.	12 - £64.5m 11 - £63.5m
Colleagues involved in volunteering, regular giving and fundraising initiatives		
Defined as the total number of Barclays employees taking part in volunteering, giving or fundraising activities (excluding pensioners).[b]	Barclays community investment programme aims to engage and support colleagues around the world to get involved with our main partnerships, as well as the local causes they care about. Harnessing their energy, time and skills delivers real benefit to local communities, to their own personal development and to their engagement with Barclays.	12 - 68,000 11 - 70,000
Group Employee Opinion Survey (EOS) – Proud to be Barclays		
This KPI reflects an aggregate of scores across Barclays for a question measuring sense of pride in being associated with or working for Barclays.	Successful employment relationships are built on mutual benefit and trust, and a more engaged workforce is usually a more productive one. We build trust through regular two-way communications, both informally, and through our Employee Opinion Surveys. These help us understand our colleagues' views and concerns when shaping future organisational direction. The KPI of 'Proud to be Barclays' is one element of employee engagement.	12 - 78% 11 - 81%
Percentage of senior managers who are female[c]		
The number of female colleagues who are working across all Barclays businesses at the senior management level as a percentage of the total senior manager population.	Diversity is important to Barclays as we believe that only through access to the most diverse pool of talent will we recruit and retain the most talented individuals to serve our customers and clients.	12 - 22% 11 - 21%

Notes

a Cumulative net stock lending for Q3 2012 as per Bank of England publication in December 2012: http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx.

b For 2012, full time equivalent head count was used solely within this KPI. The 2011 employee participation figures have been restated to exclude the number of Barclays pensioners who received support as part of the Barclays Community Investment programme.

c For 2012, 'Senior' has been reinterpreted as being a 'Director (B7)' level. Prior year comparatives have been revised to reflect this.

Financial review

Income statement commentary

Barclays Bank delivered profit before tax of £99m in 2012 (2011: £5,974m). Excluding movements on own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, impairment of investment in BlackRock, Inc., goodwill impairment, provision for PPI and interest rate hedging products, profit before tax increased 21% to £6,901m (2011: £5,685m).

Total income decreased 24% to £25,139m (2011: £33,123m). Income excluding own credit, gains on disposal of investment in BlackRock, Inc. and on debt buy backs, increased 1% to £29,491m (2011: 29,285m) despite challenging economic conditions, the continuing low interest rate environment and non-recurrence of £1,061m gains from the disposal of hedging instruments in 2011.

Customer net interest income for RBB, Corporate Banking and Wealth and Investment Management remained stable at £9,816m (2011: £9,849m) while the net interest margin for these businesses declined to 185bps (2011: 203bps), principally reflecting the non-recurrence of gains from the disposal of hedging instruments in 2011. Total income in the Investment Bank increased 13% to £11,725m driven by increases in Fixed Income, Currency and Commodities (FICC), Equities and Prime Services, and Investment Banking, particularly in the Americas.

Impairment charges and other credit provisions (excluding impairment of investment in Blackrock, Inc.) decreased 5% to £3,596m (2011: £3,802m), principally reflecting improvements in Barclaycard, Corporate Banking and UKRBB. This was partially offset by higher charges in the Investment Bank, Africa RBB and Europe RBB. Impairment charges as a proportion of Group loans and advances as at 31 December 2012 improved to 75bps, compared to 77bps for 2011.

Adjusted profit reconciliation As at 31 December	2012 £m	2011 £m
Adjusted profit before tax	**6,901**	5,685
Own credit	(4,579)	2,708
Gains on debt buy-backs	-	1,130
Gain/(loss) on disposal and impairment of BlackRock investment	227	(1,858)
Provision for PPI redress	(1,600)	(1,000)
Provision for interest rate hedging products redress	(850)	-
Goodwill impairment	-	(597)
Losses on acquisitions and disposals	-	(94)
Statutory profit before tax	**99**	5,974

Net operating income for the Group after impairment charges decreased 22% to £20,943m (2011: £26,780m). Net operating income excluding movements on own credit, gains on debt buy-backs, impairment of investment in BlackRock Inc increased 3% to £25,522m (2011: £24,742m).

Operating expenses increased 1% to £20,984m (2011: £20,772m). Operating expenses, excluding provision for PPI redress and provision for interest rate hedging products redress, were down 6% to £18,534m (2011: £19,772m), which included £125m (2011: £408m) of restructuring charges.

The cost: income ratio increased to 86% (2011: 64%). The cost: income ratio excluding movements on own credit, gains on debt buy-backs, loss/gains on acquisitions and disposals, goodwill impairment, provision for PPI and interest rate hedging products improved to 64% (2011: 67%).

The tax charge decreased to £483m (2011: £1,928m) after including a tax credit of £1,543m (2011: charge of £603m) on the charge for own credit, provisions for PPI and interest rate hedging product redress and other adjusting items, which mainly received relief at the UK rate of 24.5% (2011: 26.5%), resulting in a significant increase in the statutory effective interest rate.

Financial review
Balance sheet commentary

Total assets

Total assets decreased £72.7bn to £1,490.7bn principally reflecting lower derivative assets as spreads tightened within the credit derivative portfolio. This was partially offset by increased reverse repurchase agreements and other similar secured lending due to higher matched book trading.

Cash and balances at central banks and items in the course of collection have decreased £20.7bn to £86.2bn contributing to the Group liquidity pool.

Trading portfolio assets decreased £7.2bn to £145.0bn due to a reduction in debt securities, including the disposal of European government issued bonds and the liquidation of legacy CLO and CDO positions. This was partially offset by an increase in traded loans and commodities.

Financial assets designated at fair value increased by £9.1bn to £46.1bn primarily reflecting increases in economically hedged European equity and bond positions.

Derivative financial assets decreased £69.8bn to £469.1bn reflecting the tightening of credit spreads and trades matured and terminated during the year.

Available for sale investments increased £6.1bn to £75.1bn primarily driven by the acquisition of UK, US and higher grade European government bonds as part of the Group's Liquidity Risk Appetite portfolio. This was partially offset by a reduction in equity securities due to the disposal of the Group's investment in BlackRock, Inc.

Loans and advances to banks net of impairment decreased by £5.9bn to £40.9bn due to repayment and maturation of facilities across a range of counterparties.

Loans and advances to customers net of impairment decreased by £6.2bn to £425.7bn primarily as a result of lower corporate lending in the Investment Bank due to significant paydown of loans and the sale of ABS CDO Super Senior positions, offset by higher settlement balances and cash collateral. Corporate Banking lending reduced reflecting the ongoing challenging economic environment in Europe and Group strategy to reduce redenomination risk. Lending in UKRBB increased reflecting growth in home loans and in Barclaycard reflecting business growth in the UK and US and acquisitions in the US and South Africa.

Reverse repurchase agreements have increased by £23.3bn to £177.0bn, driven by increased matched book trading opportunities and trading desks' funding requirements.

Total liabilities

Total liabilities decreased £70.4bn to £1,428bn.

Deposits from banks and items in the course of collection decreased by £13.5bn to £78.6bn primarily driven by the reduced level of deposits that the Group has sought to attract to contribute towards the cash component of the Group liquidity pool.

Customer accounts increased £19.7bn to £385.8bn, primarily as a result of an increase in cash collateral and settlement balances and increases in underlying deposit taking in Corporate Banking and Wealth, offset by a reduction in corporate deposits in the Investment Bank as the cash component of the Group liquidity pool is reduced.

Repurchase agreements and other similar secured borrowing increased £10.0bn to £217.3bn driven by increased matched book trading and trading desks' funding requirements.

Trading portfolio liabilities remained broadly flat at £44.8bn, with the opposing movements in equities and debt securities reflecting trading strategies across desks.

Financial liabilities designated at fair value decreased £9.7bn to £78.3bn primarily reflecting buybacks and net maturation of notes issued by the Group, offset by an increase in the own credit adjustment due to a tightening of credit spreads.

Derivative financial liabilities decreased £65.3bn to £462.5bn broadly in line with the decrease in derivative assets.

Debt securities in issue decreased £10.2bn to £119.6bn due to managed changes in the funding composition.

Subordinated liabilities decreased by £0.4bn to £24.4bn due to redemptions in the year of £2.7bn largely offset by the issuance of $3bn of Contingent Capital Notes (CCNs) and £0.4bn of other subordinated callable notes.

Shareholders' Equity

Total shareholders' equity decreased £2.3bn to £62.9bn.

Share capital and share premium remained stable at £14.5bn. Retained earnings decreased £2.0bn to £42.2bn with loss attributable to the equity holders of the Parent of £0.7bn and dividends paid to shareholders of £1.2bn (2011: £1.2bn).

The available for sale reserve increased by £0.7bn driven largely by net gains on the fair value of debt securities held as part of the Group liquidity pool, offset partially by the disposal of the investment in Blackrock, Inc.

Currency translation reserve movement of £1.3bn is largely due to the depreciation in the US Dollar and South African Rand against Sterling.

Non-controlling interests decreased £0.2bn to £2.9bn, primarily reflecting currency translation movements of £0.3bn due to the depreciation of the South African Rand against Sterling.

Capital Management

The Core Tier 1 ratio remains robust at 10.9% (2011: 11.0%) and the Tier 1 ratio was 13.3% (2011: 12.9%).
Risk weighted assets decreased 1% from £391bn to £387bn in 2012. This was largely driven by a reduction in credit, counterparty credit and market risk in Corporate and Investment banking, primarily as a result of business risk reductions including sell down of legacy assets and the strategic exit from non-core portfolios. In addition, the depreciation of the US Dollar and Euro against Sterling contributed to a further risk weighted asset reduction. These were broadly offset by an increase in operational risk reflecting recent events in the banking industry, as well as externally driven methodology rule changes in market risk and credit risk.

Core Tier 1 capital decreased by £0.9bn to £42.1bn. Capital generated from retained profits of £1.8bn was offset by contributions made to the UK Retirement fund and foreign currency movements.

Financial review
Balance sheet commentary

Liquidity and funding

The Group's overall funding strategy is to develop a diversified funding base and maintain access to a variety of funding sources, minimising the cost of funding and providing protection against unexpected fluctuations. The Group aims to align the sources and uses of funding.

Customer loans and advances are largely funded by deposits, with any excess funded by long term secured debt and equity. The total loan to deposit ratio was 110% (2011: 118%).

Wholesale funding is well managed with trading portfolio assets being largely funded by repurchase agreements and the majority of reverse repurchase agreements being matched by repurchase financing. Derivative assets and liabilities are also largely matched.

As at 31 December 2012, the Group had £240bn of wholesale debt diversified across currencies, of which £39bn was secured. Term funding raised in 2012 was £28bn (2011: £30bn) compared to maturities of £27bn.

Approximately 17% of customer loans and advances were secured against external funding, leaving significant headroom for further secured issuance.

At 31 December 2012 the liquidity pool was £150bn (2011: £152bn) and moved within a month-end range of £150bn to £173bn. The liquidity pool comprises high quality, liquid unencumbered assets, diversified across currencies broadly in line with wholesale debt requirements, with 87% (2011: 93%) comprising cash and deposits with central banks and government bonds.

Financial review
Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Segmental analysis (audited)

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

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

Analysis of results by business (audited)	UKRBB £m	Europe RBB £m	Africa RBB[g] £m	Barclaycard £m	Investment Bank £m	Corporate Banking[g] £m	Wealth and Investment Management £m	Head Office and Other Operations £m	Total £m
As at 31 December 2012									
Total income net of insurance claims[a]	**4,421**	**915**	**3,157**	**4,170**	**11,725**	**2,918**	**1,815**	**(4,582)**	**24,539**
Credit impairment charges and other provisions[b]	**(269)**	**(328)**	**(646)**	**(979)**	**(460)**	**(872)**	**(38)**	**(4)**	**(3,596)**
Operating expenses[c,d,e]	**(3,864)**	**(839)**	**(2,053)**	**(2,135)**	**(7,249)**	**(2,355)**	**(1,463)**	**(1,026)**	**(20,984)**
Other income/(losses)[f]	**4**	**13**	**10**	**30**	**50**	**10**	**1**	**22**	**140**
Profit/(loss) before tax from continuing operations	**292**	**(239)**	**468**	**1,086**	**4,066**	**(299)**	**315**	**(5,590)**	**99**
Total assets	**136,665**	**47,128**	**44,798**	**37,511**	**1,074,802**	**86,255**	**23,716**	**39,872**	**1,490,747**
As at 31 December 2011									
Total income net of insurance claims[a]	4,656	1,226	3,571	4,095	10,345	3,108	1,744	3,637	32,382
Credit impairment charges and other provisions[b]	(536)	(261)	(466)	(1,259)	(93)	(1,147)	(41)	(1,799)	(5,602)
Operating expenses[c,d,e]	(3,102)	(1,638)	(2,279)	(2,306)	(7,289)	(1,882)	(1,493)	(783)	(20,772)
Other income/(losses)[f]	2	12	6	31	12	(71)	(3)	(23)	(34)
Profit/(loss) before tax from continuing operations	1,020	(661)	832	561	2,975	8	207	1,032	5,974
Total assets	127,845	51,310	48,243	33,838	1,158,350	91,190	20,866	31,760	1,563,402

Notes

a The impact of own credit movements in the fair value of structured note issuance of £4,579m (2011: £2,708m) is now included within the results of Head Office and Other Operations. This reflects the fact that these fair value movements relate to the credit worthiness of the issuer as a whole. Furthermore, delays to planned changes in accounting standards will mean own credit movements are likely to continue to be reflected in the income statement for the foreseeable future.

b Credit impairment charges and other provisions included £nil (2011: £1,800m) impairment on the investment in BlackRock, Inc. within the results of Head Office and Other Operations.

c The UK bank levy of £345m (2011: £325m) is reported under Head Office and Other Operations.

d The provision for PPI redress of £1,600m (2011: £1,000m) is reported under UKRBB of £1,180m (2011: £400m) and Barclaycard £420m (2011: £600m).

e The impairment of goodwill is £nil (2011: £597m) is reported under Europe RBB £nil (2011: £427m), Corporate Banking £nil (2011: £123m) and Barclaycard £nil (2011: £47m).

f Other income/(losses) represents: 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.

g Certain Corporate Banking activities in Africa, previously reported under Africa RBB, are now reported within Corporate Banking. 2011 numbers have been restated. This restatement has had no impact on The Group's overall results.

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Income by geographic region[a] (audited)	2012 £m	2011 £m
Continuing operations		
UK	**7,432**	15,909
Europe	**3,665**	4,207
Americas	**7,826**	6,025
Africa and Middle East	**4,510**	4,967
Asia	**1,106**	1,274
Total	**24,539**	32,382

Income from individual countries which represent more than 5% of total income[a] (audited)	2012 £m	2011 £m
Continuing operations		
UK	**7,432**	15,909
US	**7,604**	5,802
South Africa	**4,211**	3,942

Note
a Total income net of insurance claims based on counterparty location.

£4,421m
total income net of insurance claims

£292m
profit before tax

Retail and Business Banking

UK Retail and Business Banking

Income declined 5% to £4,421m 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 5% to £3,227m with net interest margin down 14bps to 137bps 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 4% to £1,194m reflecting lower net insurance income.

Credit impairment charges decreased 50% to £269m reflecting improvements across all portfolios, principally in personal unsecured lending. Loan loss rate reduced to 21bps (2011: 44bps). 90 day arrear rates improved 33bps on UK personal loans to 1.3% and deteriorated 4bps on UK mortgages to 0.3%. Adjusted operating expenses remained broadly flat at £2,684m (2011: £2,702m).

Adjusted profit before tax improved 4% to £1,472m. Statutory profit before tax declined 71% to £292m after £1,180m (2011: £400m) provision for PPI redress.

Adjusted return on average equity improved to 16.0% (2011: 14.9%). Statutory return on average equity declined to 3.1% (2011: 10.6%).

Total loans and advances to customers increased 6% to £128.2bn driven by growth in mortgage balances. Mortgage balances of £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 current valuation basis was 46% (31 December 2011: 44%). Average LTV of new mortgage lending was 56% (31 December 2011: 54%). Total customer deposits increased 4% to £116.0bn primarily driven by growth in savings from ISAs and retail bonds.

Risk weighted assets increased 14% to £38.8bn principally due to mortgage balance growth, an increased operational risk charge and adoption of a more comprehensive approach to loans subject to forbearance.

	2012 £m	2011 £m
Income Statement Information		
Net interest income	**3,227**	3,413
Net fee and commission income	**1,154**	1,157
Net investment income	**-**	17
Net premiums from insurance contracts	**74**	92
Other (expense)/income	**(1)**	(1)
Total income	**4,454**	4,678
Net claims and benefits incurred under insurance contracts	**(33)**	(22)
Total income net of insurance claims	**4,421**	4,656
Credit impairment charges and other provisions	**(269)**	(536)
Net operating income	**4,152**	4,120
Operating expenses (excluding provision for PPI redress)	**(2,684)**	(2,702)
Provision for PPI redress	**(1,180)**	(400)
Operating expenses	**(3,864)**	(3,102)
Share of post-tax results of associates and joint ventures	**4**	2
Profit before tax	**292**	1,020
Adjusted profit before tax[a]	**1,472**	1,420
Balance Sheet Information		
Loans and advances to customers at amortised cost	**£128.2bn**	£121.2bn
Customer accounts	**£116.0bn**	£111.8bn
Total assets	**£136.7bn**	£127.8bn
Risk weighted assets	**£38.8bn**	£34.0bn

Notes
a Adjusted profit before tax excludes the impact of the provision for PPI redress of £1,180m (2011: £400m).

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

	Adjusted[a]		Statutory	
	2012	2011	2012	2011
Performance Measures				
Return on average equity	**16.0%**	14.9%	**3.1%**	10.6%
Return on average tangible equity	**30.5%**	28.6%	**5.9%**	20.3%
Return on average risk weighted assets	**3.1%**	3.0%	**0.6%**	2.1%
Loan loss rate (bps)	**21**	44	**21**	44
Cost: income ratio	**61%**	58%	**87%**	67%
Key Facts				
90 day arrears rates - UK loans			**1.3%**	1.7%
90 day arrears rates - home loans			**0.3%**	0.3%
Number of UK current accounts			**11.7m**	11.9m
Number of UK savings accounts			**15.4m**	15.1m
Number of UK mortgage accounts			**945,000**	930,000
Number of Barclays Business customers			**765,000**	785,000
LTV of mortgage portfolio			**46%**	44%
LTV of new mortgage lending			**56%**	54%
Number of branches			**1,593**	1,625
Number of ATMs			**4,166**	3,629
Number of employees (full time equivalent)			**34,800**	34,100

Notes
a Adjusted performance measures excludes the impact of the provision for PPI redress of £1,180m (2011: £400m).

£915m
total income net of insurance claims

£239m
loss before tax

Retail and Business Banking

Europe Retail and Business Banking

Income declined 25% to £915m reflecting the challenging economic environment across Europe and non-recurrence of gains from disposal of hedging instruments in 2011.

Net interest income declined 24% to £599m. Customer asset margin decreased 4bps to 83bps with net interest margin down 20bps to 108bps, driven by higher funding costs partially offset by product re-pricing. Average customer assets decreased 7% to £40.8bn 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 28% to £316m, reflecting lower commissions mainly from Italy mortgage sales and lower sales of investment products.

Credit impairment charges increased 26% to £328m due to deterioration in credit performance across Europe reflecting current economic conditions. Loan loss rate increased to 80bps (2011: 54bps). 90 day arrears rate for home loans increased 19bps to 0.7% in Spain, increased 5bps to 0.7% in Portugal and increased 6bps to 1.0% in Italy.

Adjusted operating expenses decreased 31% to £839m, reflecting non recurrence of 2011 restructuring charges of £189m and related ongoing cost savings.

Adjusted loss before tax increased 2% to £239m while adjusted return on average equity declined to negative 8.0% (2011: negative 6.0%) primarily due to lower average capital resulting from the 2011 goodwill impairment write-off.

Loans and advances to customers decreased 8% to £40.0bn reflecting currency movements and active management to reduce funding mismatch. This change has driven an 8% reduction in total assets to £47.1bn.

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

Risk weighted assets decreased 2% to £17.1bn principally due to reductions in loans and advances and currency movements, partially offset by an increased operational risk charge and portfolio deterioration in Spain.

	2012 £m	2011 £m
Income Statement Information		
Net interest income	**599**	786
Net fee and commission income	**284**	429
Net trading income	**7**	9
Net investment income	**52**	91
Net premiums from insurance contracts	**331**	463
Other income/(expense)	**1**	(49)
Total income	**1,274**	1,729
Net claims and benefits incurred under insurance contracts	**(359)**	(503)
Total income net of insurance claims	**915**	1,226
Credit impairment charges and other provisions	**(328)**	(261)
Net operating income	**587**	965
Operating expenses (excluding goodwill impairment)	**(839)**	(1,211)
Goodwill impairment	**-**	(427)
Operating expenses	**(839)**	(1,638)
Share of post-tax results of associates and joint ventures	**13**	12
(Loss) before tax	**(239)**	(661)
Adjusted (loss) before tax[a]	**(239)**	(234)
Balance Sheet Information		
Loans and advances to customers at amortised cost	**£40.0bn**	£43.6bn
Customer accounts	**£17.6bn**	£16.4bn
Total assets	**£47.1bn**	£51.3bn
Risk weighted assets	**£17.1bn**	£17.4bn

Note
a Adjusted profit before tax and adjusted performance measures excludes goodwill impairment of £nil (2011: £427m).

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

	Adjusted[a]		Statutory	
	2012	2011	**2012**	2011
Performance Measures				
Return on average equity	**(8.0%)**	(6.0%)	**(8.0%)**	(21.8%)
Return on average tangible equity	**(9.2%)**	(7.9%)	**(9.2%)**	(29.0%)
Return on average risk weighted assets	**(1.1%)**	(0.9%)	**(1.1%)**	(3.3%)
Loan loss rate (bps)	**80**	54	**80**	54
Cost: income ratio	**92%**	99%	**92%**	134%

Key Facts		
90 day arrears rates - Spain home loans	**0.7%**	0.5%
90 day arrears rates - Portugal home loans	**0.7%**	0.6%
90 day arrears rates - Italy home loans	**1.0%**	1.0%
90 day arrears rates - Total Europe RBB home loans	**0.8%**	0.7%
30 day arrears rates - cards	**6.2%**	5.9%
Number of customers	**2.7m**	2.7m
Number of branches	**923**	978
Number of sales centres	**219**	250
Number of distribution points	**1,142**	1,228
Number of employees (full time equivalent)	**7,900**	8,500

Notes

a Adjusted profit before tax and adjusted performance measures excludes goodwill impairment of £nil (2011: £427m).

£3,157m
total income net of insurance claims

£468m
profit before tax

Retail and Business Banking

Africa Retail and Business Banking

Income declined 12% to £3,157m. Excluding currency movements, income declined 2% 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 11% to £1,751m with the net interest margin down 10bps to 312bps primarily due to lower income generated through non customer related items partially offset by increased higher margin business. Customer asset margin increased 34bps to 326bps reflecting a change in composition towards higher margin business. Average customer assets decreased 10% to £34.1bn driven by currency movements and a modest decline in the South African mortgage book. Customer liability margin decreased 42bps to 234bps driven by a decline in South Africa partially offset by improving margins across a number of other African countries. Average customer liabilities decreased 6% to £22.1bn driven by currency movements as deposits continued to grow in South Africa where Absa remains a leader in retail deposits.

Non-interest income declined 12% to £1,406m driven largely by adverse currency movements.

Credit impairment charges increased 39% to £646m. Excluding currency movements impairment charges increased 57% 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. Loan loss rate increased to 194bps (2011: 129bps) . However 90 day arrears rate for home loans decreased by 168bps to 1.6% reflecting improved new business and continuing low interest rate environment.

Operating expenses decreased 10% to £2,053m mainly due to currency movements with underlying business growth broadly in line.

Profit before tax declined 44% to £468m and adjusted return on average equity decreased to 3.8% (2011: 9.7%).

Loans and advances to customers decreased 8% to £31.7bn mainly due to currency movements and a modest decline in the South African mortgage book.

Customer deposits decreased 3% to £22.0bn. Excluding currency movements customer deposits increased 7% mainly due to growth in South African deposits.

Risk weighted assets decreased 11% to £27.0bn, principally due to foreign exchange movements and a change in approach for sovereign risk weightings, offset by an increased operational risk charge.

	2012 £m	2011[b] £m
Income Statement Information		
Net interest income	**1,751**	1,978
Net fee and commission income	**1,101**	1,196
Net trading income	**69**	70
Net investment income	**5**	56
Net premiums from insurance contracts	**417**	432
Other income	**21**	54
Total income	**3,364**	3,786
Net claims and benefits incurred under insurance contracts	**(207)**	(215)
Total income net of insurance claims	**3,157**	3,571
Credit impairment charges and other provisions	**(646)**	(466)
Net operating income	**2,511**	3,105
Operating expenses	**(2,053)**	(2,279)
Share of post-tax results of associates and joint ventures	**10**	6
Profit before tax	**468**	832
Adjusted profit before tax[a]	**468**	830
Balance Sheet Information		
Loans and advances to customers at amortised cost	**£31.7bn**	£34.4bn
Customer accounts	**£22.0bn**	£22.6bn
Total assets	**£44.8bn**	£48.2bn
Risk weighted assets	**£27.0bn**	£30.3bn

Note
a Adjusted profit before tax and adjusted performance measures excludes the impact subsidiaries.
b Certain Corporate Banking activities in Africa, previously reported under Africa RBB, are now reported within Corporate Banking. 2011 numbers have been restated.

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

	Adjusted[a]		Statutory	
	2012	2011	2012	2011
Performance Measures				
Return on average equity[b,c]	3.8%	9.7%	3.8%	9.8%
Return on average tangible equity[c]	7.6%	16.6%	7.6%	16.7%
Return on average risk weighted assets	0.9%	1.7%	0.9%	1.7%
Loan loss rate (bps)	194	129	194	129
Cost: income ratio	65%	64%	65%	64%
Key Facts				
90 days arrears rate - South African home loans			1.6%	3.2%
Number of customers			13.5m	14.5m
Number of ATMs			10,468	10,068
Number of branches			1,339	1,354
Number of sales centres			112	139
Number of distribution points			1,451	1,493
Number of employees (full time equivalent)			41,700	43,800

Notes
a Adjusted profit before tax and adjusted performance measures excludes the impact of profit on disposal of subsidiaries, associates and joint ventures of £nil (2011: £2m).
b The return on average equity differs from the return on the equity reported by Absa Group Ltd as the latter does not include goodwill arising from Barclays acquisition of the Absa Group and does include other Absa Group businesses that Barclays Group reports within Barclaycard, Investment Bank and Wealth and Investment Management.
c Including non-controlling interests.

£4,170m
total income net of insurance claims

£1,086m
profit before tax

Retail and Business Banking
Barclaycard

Income increased 2% to £4,170m 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 Rand against Sterling. UK income increased 1% to £2,616m including contribution from 2011 portfolio acquisitions and business growth offset by increased funding costs. International income improved 7% to £1,554m driven by higher US outstanding balances and contribution from portfolio acquisitions.

Net interest income remained flat at £2,854m. Contributions from business growth and acquisitions were offset by lower net interest margin of 846bps (2011: 944bps) which stabilised in the second half of the year. Average customer assets increased 7% to £32.5bn due to portfolio acquisitions and business growth. Customer asset margin was down 13bps to 939bps due to higher funding costs.

Non-interest income improved 7% to £1,316m driven by increased volumes in the Business Payment and US portfolios.

Credit impairment charges decreased 22% to £979m resulting from improved delinquency, lower charge-offs and better recovery rates, primarily in the first half of 2012. Loan loss rate improved by 109bps to 282bps (2011: 391bps). 30 day arrears rates for consumer cards in UK down to 2.5% (2011: 2.7%), in the US down to 2.4% (2011: 3.1%)and in South Africa up to 5.2% (2011: 4.9%).

Adjusted operating expenses increased 3% to £1,715m reflecting portfolio acquisitions, provision for certain other insurance products and investment spend.

Adjusted profit before tax improved 25% to £1,506m. Statutory profit before tax increased by £525m to £1,086m after £420m (2011: £600m) provision for PPI redress.

Adjusted return on average equity improved to 22.1% (2011: 17.4%).

Total assets increased 11% to £37.5bn primarily driven by business growth and acquisitions.

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

Risk weighted assets increased 7% to £36.5bn, principally due to growth in assets and an increased operational risk charge.

	2012 £m	2011 £m
Income Statement Information		
Net interest income	**2,854**	2,860
Net fee and commission income	**1,271**	1,171
Net trading loss	**(9)**	(7)
Net investment income	**-**	10
Net premiums from insurance contracts	**36**	42
Other income	**19**	20
Total income	**4,171**	4,096
Net claims and benefits incurred under insurance contracts	**(1)**	(1)
Total income net of insurance claims	**4,170**	4,095
Credit impairment charges and other provisions	**(979)**	(1,259)
Net operating income	**3,191**	2,836
Operating expenses (excluding provision for PPI redress and goodwill impairment)	**(1,715)**	(1,659)
Provision for PPI redress	**(420)**	(600)
Goodwill impairment	**-**	(47)
Operating expenses	**(2,135)**	(2,306)
Share of post-tax results of associates and joint ventures	**30**	31
Profit before tax	**1,086**	561
Adjusted profit before tax[a]	**1,506**	1,208
Balance Sheet Information		
Loans and advances to customers at amortised cost	**£32.9bn**	£30.1bn
Customer deposits	**£2.8bn**	£0.6bn
Total assets	**£37.5bn**	£33.8bn
Risk weighted assets	**£36.5bn**	£34.2bn

Note
a Adjusted profit before tax and adjusted performance measures excludes the impact of the provision for PPI redress of £420m (2011: £600m), and goodwill impairment in FirstPlus secured lending portfolio of £nil (2011: £47m).

Financial review
Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

	Adjusted[a]		Statutory	
	2012	2011	**2012**	2011
Performance Measures				
Return on average equity	**22.1%**	17.4%	**15.2%**	6.8%
Return on average tangible equity	**29.7%**	23.0%	**20.5%**	9.0%
Return on average risk weighted assets	**3.3%**	2.6%	**2.3%**	1.2%
Loan loss rate (bps)	**282**	391	**282**	391
Cost: income ratio	**41%**	41%	**51%**	56%
Key Facts				
30 day arrears rates - UK cards			**2.5%**	2.7%
30 day arrears rates - US cards			**2.4%**	3.1%
30 day arrears rates - South Africa cards			**5.2%**	4.9%
Total number of Barclaycard customers			**28.8m**	22.6m
Total average customer assets			**£32.5bn**	£30.3bn
Payments Processed			**£240bn**	£219bn
Number of retailer relationships			**89,000**	87,000
Number of employees (full time equivalent)			**11,000**	10,400

Note
a Adjusted profit before tax and adjusted performance measures excludes the impact of the provision for PPI redress of £420m (2011: £600m) and £nil goodwill impairment in Firstplus secured lending portfolio (2011: £47m).

£11,725m
total income

£4,066m
profit before tax

Investment Bank

Profit before tax increased 37% to £4,066m driven by strong income growth and reduced operating expenses.

Total income increased 13% to £11,725m. Fixed Income, Currency and Commodities (FICC) income improved 17% to £7,403m, 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 14% to £1,991m, reflecting global market share gains which resulted in improved performance in cash equities and equity derivatives, despite subdued market volumes. Investment Banking income increased 5% to £2,126m, 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 £460m (2011: £93m) primarily related to £232m on ABS CDO Super Senior positions as a result of model changes to calibrate to current market data sources, and higher losses on single name exposures. The prior year included a non recurring release of £223m.

Operating expenses decreased to £7,249m (2011: £7,289), driven by a 3% reduction in total performance costs to £1,693m including £210m increase in deferred bonus charges. Non-performance costs remained in line at £5,556m (2011: £5,571m) despite absorbing £193m charge relating to the setting of inter-bank offered rates.

Cost to net operating income ratio of 64% (2011: 71%) within target range of 60% to 65%. The compensation to income ratio improved to 39% (2011: 47%).

Return on average equity of 13.7% (2011: 10.4%) and return on average risk weighted assets of 1.5% (2011: 1.2%).

Assets contributing to adjusted gross leverage decreased 6% to £567.9bn reflecting decreases in cash and balances at central banks, trading portfolio assets, and loans and advances to banks and customers, partially offset by an increase in reverse repurchase agreements.

Credit market exposures decreased 39% to £9,310m, reflecting net sales and paydowns and other movements of £5,436m, foreign exchange movements of £459m, offset by net fair value gains and impairment charges of £44m.

Risk weighted assets decreased 5% to £178.0bn, 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.

	2012 £m	2011 £m
Income Statement Information		
Net interest income	**619**	1,177
Net fee and commission income	**3,262**	3,026
Net trading income	**7,318**	5,264
Net investment income	**526**	883
Other expense	**-**	(5)
Total income	**11,725**	10,345
Credit impairment charges and other provisions	**(460)**	(93)
Net operating income	**11,265**	10,252
Operating expenses	**(7,249)**	(7,289)
Share of post-tax results of associates and joint ventures	**50**	12
Profit before tax	**4,066**	2,975
Adjusted profit before tax	**4,066**	2,975
Balance Sheet Information		
Loans and advances to banks and customers at amortised cost	**£145.0bn**	£158.6bn
Customer deposits	**£76.2bn**	£83.1bn
Total assets	**£1,074.8bn**	£1,158.4bn
Assets contributing to adjusted gross leverage	**£567.9bn**	£604.0bn
Risk weighted assets	**£178.0bn**	£186.7bn

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Analysis of total income	Year ended 31 December 2012 £m	2011 £m
Fixed Income, Currency and Commodities	**7,403**	6,325
Equities and Prime Services	**1,991**	1,751
Investment Banking	**2,126**	2,027
Principal Investments	**205**	232
Total income	**11,725**	10,335

	Adjusted 2012	2011	Statutory 2012	2011
Performance Measures				
Return on average equity	**13.7%**	10.4%	**13.7%**	10.4%
Return on average tangible equity	**14.2%**	10.8%	**14.2%**	10.8%
Return on average risk weighted assets	**1.5%**	1.2%	**1.5%**	1.2%
Loan loss rate (bps)	**30**	8	**30**	8
Cost: income ratio	**62%**	71%	**62%**	71%
Cost: net operating income ratio	**64%**	71%	**64%**	71%
Compensation: income ratio	**39%**	47%	**39%**	47%
Average income per employee (000s)	**£494**	£424	**£494**	£424

Other measures	2012	2011
Average DVaR (95%)	**£38m**	£57m
Number of employees (full time equivalent)	**24,000**	23,600

£2,918m
total income

£299m
loss before tax

Corporate Banking

Adjusted profit before tax improved £347m to £551m including a gain of £71m (2011: loss of £111m) in the net valuation of fair value items, primarily driven by improved credit impairment in Europe and UK and lower operating expenses. Statutory loss before tax was £299m (2011: profit £8m) including a £850m provision for interest rate hedging products redress.

- UK adjusted profit before tax improved 22% to £910m reflecting a £182m improvement in the net valuation of fair value items, improved operating expenses and credit impairment. UK statutory profit before tax decreased £687m to £60m including a £850m provision for interest rate hedging products redress .
- Europe loss before tax improved £266m to £381m principally due to improved 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 statutory profit before tax improved £114m to £22m reflecting the non-recurrence of prior year loss on disposal of Barclays Bank Russia. Rest of the World adjusted profit before tax improved £41m to £22m reflecting lower operating expenses as a result of refocusing of our international business.

Net interest income decreased 13% to £1,870m reflecting increased funding costs, non-recurring income from exited businesses and gains on the disposal of hedging instruments. Net interest margin down 22bps to 124bps principally due to higher funding costs and non-recurring gains from the sale of hedging instruments. Customer asset margin decreased 32bps to 114bps reflecting higher funding costs and reduced balances due to the refocusing of our international business. Customer liability margin increased 15bps to 109bps 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 24% to £872m. Loan loss rate improved to 128bps (2011: 156bps). 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 14% to £1,505m, reflecting the benefits of prior year restructuring and cost control initiatives. Adjusted cost to income ratio improved to 52% (2011: 57%). Adjusted return on average equity improved to 5.5% (2011: 1.7%). Statutory return on average equity is negative 3.7% (2011: negative 1.0%).

Total assets in UK up by £0.6bn driven by solid growth in net UK lending. Total assets down £4.9bn to £86.3bn as increases in the UK are more than offset by reductions in Europe and Rest of the World due to the refocusing of our international business. Customer deposits increased 14% to £97.1bn with increased balances in the UK and Europe due to higher currency deposits and current accounts.

Risk weighted assets decreased 7% to £68.0bn, principally reflecting the benefit of the refocusing of our international business, partially offset by an increased operational risk charge.

	2012 £m	2011[b] £m
Income Statement Information		
Net interest income	**1,870**	2,155
Net fee and commission income	**955**	1,005
Net trading income/(expense)	**65**	(99)
Net investment income	**23**	29
Other income	**5**	18
Total income	**2,918**	3,108
Credit impairment charges and other provisions	**(872)**	(1,147)
Net operating income	**2,046**	1,961
Operating expenses excluding goodwill impairment	**(1,505)**	(1,759)
Provision for interest rate hedging products redress	**(850)**	-
Goodwill impairment	**-**	(123)
Operating expenses	**(2,355)**	(1,882)
Share of post-tax results of associates and joint ventures	**10**	2
Loss on disposal of subsidiaries, associates and joint ventures	**-**	(73)
(Loss)/profit before tax	**(299)**	8
Adjusted profit before tax[a]	**551**	204
Balance Sheet Information and Key Facts		
Loans and advances to customers at amortised cost	**£62.9bn**	£66.9bn
Loans and advances to customers at fair value	**£17.6bn**	£17.2bn
Customer deposits	**£97.1bn**	£85.2bn
Total assets	**£86.3bn**	£91.2bn
Risk weighted assets	**£68.0bn**	£72.8bn
Number of employees (full time equivalents)	**10,300**	11,200

Note

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

b Certain Corporate Banking activities in Africa, previously reported under Africa RBB, are now reported within Corporate Banking. 2011 numbers have been restated.

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

	Adjusted[a]		Statutory	
	2012	2011	2012	2011
Performance Measures				
Return on average equity	**5.5%**	1.7%	**(3.7%)**	(1.0%)
Return on average tangible equity	**5.8%**	1.8%	**(3.9%)**	(1.0%)
Return on average risk weighted assets	**0.6%**	0.2%	**0.3%**	(0.1%)
Loan loss rate (bps)	**128**	156	**128**	156
Cost: income ratio	**52%**	57%	**81%**	61%

Income Statement Information	2012				2011			
	UK £m	Europe £m	RoW £m	Total £m	UK £m	Europe £m	RoW £m	Total £m
Income	**2,234**	**313**	**371**	**2,918**	2,199	440	469	3,108
Credit impairment charges and other provisions	**(285)**	**(542)**	**(45)**	**(872)**	(355)	(716)	(76)	(1,147)
Operating expenses (excluding provision for interest rate hedging products redress)	**(1,041)**	**(152)**	**(312)**	**(1,505)**	(1,099)	(248)	(412)	(1,759)
Provision for interest rate hedging redress	**(850)**	**-**	**-**	**(850)**	-	(123)	-	(123)
Other net income/(expense)	**2**	**-**	**8**	**10**	2	-	(73)	(71)
Profit/(loss) before tax	**60**	**(381)**	**22**	**(299)**	747	(647)	(92)	8
Adjusted profit/(loss) before tax[a]	**910**	**(381)**	**22**	**551**	747	(524)	(19)	204

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

Financial review

Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Wealth and Investment Management

Income improved 4% to £1,815m primarily driven by an increase in the High Net Worth businesses.

Net interest income grew 7% to £853m reflecting growth in deposit and lending balances in the High Net Worth businesses. Net interest margin decreased 7bps to 122bps due to ongoing low interest rate environment and reduced contribution from structural hedges. Customer deposits increased 16% to £53.8bn. Loans and advances to customers increased 13% to £21.2bn.

Net fees and commissions income remained broadly in line at £946m (2011 : £943m) despite challenging market conditions.

Operating expenses decreased 2% to £1,463m as cost control initiatives were partially offset by the continued cost of the strategic investment programme.

Profit before tax increased 52% to £315m and return on average equity increased to 13.9% (2011: 10.9%).

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

Risk weighted assets increased 21% to £15.8bn principally due to growth in lending and an increased operational risk charge.

	2012 £m	2011 £m
Income Statement Information		
Net interest income	**853**	798
Net fee and commission income	**946**	943
Net trading income	**16**	5
Other (expense)/income	**-**	(2)
Total income	**1,815**	1,744
Credit impairment charges and other provisions	**(38)**	(41)
Net operating income	**1,777**	1,703
Operating expenses	**(1,463)**	(1,493)
Share of post-tax results of associates and joint ventures	**1**	(3)
Profit before tax	**315**	207
Adjusted profit before tax	**315**	207
Balance Sheet Information		
Loans and advances to customers at amortised cost	**£21.2bn**	£18.8bn
Customer deposits	**£53.8bn**	£46.5bn
Total assets	**£23.7bn**	£20.9bn
Risk weighted assets	**£15.8bn**	£13.1bn

	2012	Statutory 2011
Performance Measures		
Return on average equity	**13.9%**	10.9%
Return on average tangible equity	**19.2%**	15.0%
Return on average risk weighted assets	**2.0%**	1.5%
Loan loss rate (bps)	**17**	21
Cost: income ratio	**81%**	86%
Other financial measures		
Total client assets	**£186.0bn**	£164.2bn
Number of employees	**7,900**	8,100

Financial review
Analysis of results by business

All disclosures in this section are unaudited unless otherwise stated

Head Office and Other Operations

Adjusted total expense net of insurance claims reduced to £3m (2011: £201m) principally due to changes in the value of hedges relating to employee share awards which were closed out during first quarter of 2012.

Operating expenses increased 31% to £1,026m 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), the increase in the UK bank levy to £345m (2011: £325m) and increased strategic initiative costs.

Adjusted loss before tax increased by 37% to £1,266m (2011: loss of £925m). Statutory loss before tax increased to £5,590m (2011: profit £1,032m) 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 BlackRock, Inc. investment disposal and income from changes in the value of hedges relating to employee share awards that were closed out during first quarter of 2012.

Total assets increased to £39.4bn (2011: £31.8bn) reflecting growth in the liquidity bond portfolio held at Head Office and Other Operations, partially offset by the sale of the strategic investment in BlackRock, Inc. Risk weighted assets have increased £2.5bn to £5.7bn, principally reflecting increases in sovereign bonds held for liquidity purposes and the application of a more conservative approach to risk weighting these exposures.

	2012 £m	2011 £m
Adjusted total expense net of insurance claims (excluding own credit and gains on debt buy-backs)[a]	(3)	(201)
Own credit (charge)/gain	(4,579)	2,708
Gains on debt buy-backs and extinguishments	-	1,130
Total (expense)/income net of insurance claims	(4,582)	3,637
Credit impairment (charge)/release and other provisions	(4)	(1,799)
Net operating (loss)/income	(4,586)	1,838
Operating expenses (excluding UK bank levy)	(681)	(463)
UK bank levy	(345)	(325)
Operating expenses	(1,026)	(783)
Share of post-tax results of associates and joint ventures	(6)	-
Profit/(loss) on disposal of associates and joint ventures	28	(23)
(Loss)/profit before tax	(5,590)	1,032
Adjusted loss before tax[a]	(1,266)	(925)
Balance Sheet Information		
Total assets	£39.4bn	£31.8bn
Risk weighted assets	£5.7bn	£2.5bn
Number of employees (full time equivalent)	1,600	1,400

Notes
a Includes net interest expense of £134m (2011: £965m).
b Adjusted performance measures and profit before tax exclude the impact of an own credit 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 (2011: £1,130m), gain on disposal of strategic investment in BlackRock, Inc. of £227m (2011: loss of £58m), impairment of investment in BlackRock Inc. of £nil (2011: £1,800m) and profit on disposals of £28m (2011: loss of £23m).

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 the light of developing market practice and areas of focus.

In particular for 2012, the Group has considered the recommendations of the Enhanced Disclosure Task Force (EDTF). 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.

In 2012 we have:

- a significantly expanded and more transparent remuneration report;
- sought to provide a clearer guide to the location of risk disclosures across both the Annual Report and Pillar 3 report;
- streamlined risk reporting by separating risk performance and management disclosures into two sections;
- provided greater information on regulatory capital and RWAs;
- increased information on funding structure and levels of encumbrance; and
- disclosed further information on the credit risk of and loans subject to forbearance.

BBA Code for Financial Reporting Disclosure

Barclays has adopted the BBA Code for Financial Reporting Disclosure and has prepared the 2012 Annual Report and Accounts in compliance with the Code. The British Bankers' Association published a Code for Financial Reporting Disclosure (the Code). The Code sets out five disclosure principles together with supporting guidance. The principles are that UK banks will:

- provide high quality, meaningful and decision-useful disclosures;
- review and enhance their financial instrument disclosures for key areas of interest;
- assess the applicability and relevance of good practice recommendations to their disclosures acknowledging the importance of such guidance;
- seek to enhance the comparability of financial statement disclosures across the UK banking sector; and
- clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Differences between Barclays Bank PLC and the Parent Company – Barclays PLC

Barclays Bank PLC is a wholly owned subsidiary of Barclays PLC, which is the Group's ultimate parent company. The consolidated results and financial position of Barclays Bank PLC Group and Barclays PLC Group are materially the same, with the key difference being that, in accordance with IFRS:

- preference shares issued by Barclays Bank PLC are included within share capital and share premium in Barclays Bank PLC but represent non-controlling interests in Barclays PLC.

- certain issuances of capital notes by Barclays Bank PLC are included within other shareholders' equity in Barclays Bank PLC, but represent non-controlling interests in Barclays PLC.

- the carrying value of Contingent Capital Notes (CCNs) is higher in the balance sheet of Barclays Bank PLC, which issued the notes, than in the consolidated balance sheet of Barclays PLC due to the different contractual rights and obligations of each. In the Barclays PLC consolidated financial statements, the CCNs are liabilities that are cancelled in the event that the consolidated Common Equity Tier 1 (CET1) ratio falls below 7%. To Barclays Bank PLC, which has no ability to cancel the CCNs (which is effected by an automatic legal transfer of ownership from the holder to Barclays PLC), the coupon is higher than the market rate appropriate for a liability without the automatic transfer feature. This leads to the recognition of an initial fair value for the CCNs that is higher than par for Barclays Bank PLC. The difference between initial fair value and par is amortised over the period to the expected maturity of the notes. In its consolidated financial statements, Barclays PLC recognises the notes at par.

- Barclays PLC shares held for the purposes of employee share schemes and for trading are recognised as available for sale investments and trading portfolio assets respectively within Barclays Bank PLC. Barclays PLC deducts treasury shares from shareholders equity.

More extensive disclosures are contained in the Barclays PLC Annual Report for the year ended 31 December 2012, including risk exposures and business performance, which are materially the same as those in Barclays Bank PLC.

Independent Registered Public Accounting Firm's report

Independent Auditors' Report to the members of Barclays Bank PLC

We have audited the financial statements of Barclays Bank PLC for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, Consolidate and Parent balance sheets, Consolidated and Parent statements of changes in equity, Consolidated and Parent cash flow statements, the related notes and the parts of the Risk review section that are referenced as audited. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Andrew Ratcliffe (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
5th March 2013

a The maintenance and integrity of the Barclays PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction

Independent Auditors' report

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

In our opinion, the accompanying Consolidated balance sheets and the related Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated cash flow statement present fairly, in all material respects, the financial position of Barclays Bank PLC and its subsidiaries at 31 December 2012 and 31 December 2011, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
London, United Kingdom
5th March 2013

Consolidated financial statements
Consolidated income statement

For the year ended 31 December		The Group	
		2012	2011
	Notes	£m	£m
Continuing operations			
Interest income	3	**19,199**	20,589
Interest expense	3	**(7,564)**	(8,393)
Net interest income		**11,635**	12,196
Fee and commission income	4	**10,216**	10,208
Fee and commission expense	4	**(1,634)**	(1,586)
Net fee and commission income		**8,582**	8,622
Net trading income	5	**3,028**	7,738
Net investment income	6	**663**	2,322
Net premiums from insurance contracts		**896**	1,076
Net gain on disposal of investment in BlackRock, Inc.		**227**	-
Gain on debt buy-backs and extinguishments		**-**	1,130
Other income		**108**	39
Total income		**25,139**	33,123
Net claims and benefits incurred on insurance contracts		**(600)**	(741)
Total income net of insurance claims		**24,539**	32,382
Credit impairment charges and other credit provisions	7	**(3,596)**	(3,802)
Impairment of investment in BlackRock, Inc.	7	**-**	(1,800)
Net operating income		**20,943**	26,780
Staff costs	34	**(10,447)**	(11,407)
Administration and general expenses	8	**(6,638)**	(6,351)
Depreciation of property, plant and equipment	22	**(669)**	(673)
Amortisation of intangible assets		**(435)**	(419)
Goodwill impairment	23	**-**	(597)
Provision for PPI redress		**(1,600)**	(1,000)
Provision for interest rate hedging products redress		**(850)**	-
UK Bank Levy		**(345)**	(325)
Operating expenses		**(20,984)**	(20,772)
Share of post-tax results of associates and joint ventures		**110**	60
Profit/(loss) on disposal of subsidiaries, associates and joint ventures	9	**28**	(94)
Gain on acquisitions		**2**	-
Profit before tax from continuing operations		**99**	5,974
Tax	10	**(483)**	(1,928)
(Loss)/profit after tax		**(384)**	4,046
Attributable to:			
Equity holders of the Parent		**(723)**	3,616
Non-controlling interests	33	**339**	430
(Loss)/profit after tax		**(384)**	4,046

Note
As permitted by section 408(3) of the Companies Act 2006 an income statement for the parent company has not been presented.

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December	The Group	
	2012	2011
	£m	£m
(Loss)/profit after tax	**(384)**	4,046
Other comprehensive income from continuing operations:		
Currency translation reserve[a]		
- Currency translation differences	**(1,578)**	(1,607)
Available for sale reserve[a]		
- Net gains from changes in fair value	**1,237**	2,581
- Net gains transferred to net profit on disposal	**(549)**	(1,614)
- Net losses transferred to net profit due to impairment	**40**	1,860
- Net loss/(gains) transferred to net profit due to fair value hedging	**474**	(1,803)
- Changes in insurance liabilities	**(150)**	18
- Tax	**(352)**	170
Cash flow hedging reserve[a]		
- Net gains from changes in fair value	**1,499**	2,406
- Net gains transferred to net profit	**(695)**	(753)
- Tax	**(142)**	(390)
Other	**95**	(74)
Other comprehensive income for the year, net of tax, from continuing operations	**(121)**	794
Total comprehensive income for the year	**(505)**	4,840
Attributable to:		
Equity holders of the Parent	**(635)**	5,041
Non-controlling interests	**130**	(201)
	(505)	4,840

Note
a For further details refer to Note 32

Consolidated financial statements
Consolidated balance sheet

As at 31 December		The Group		The Bank	
		2012	2011	2012	2011
	Notes	£m	£m	£m	£m
Assets					
Cash and balances at central banks		**86,175**	106,894	**81,996**	103,087
Items in the course of collection from other banks		**1,456**	1,812	**1,076**	1,634
Trading portfolio assets	12	**145,030**	152,183	**74,719**	85,048
Financial assets designated at fair value	13	**46,061**	36,949	**82,237**	44,552
Derivative financial instruments	14	**469,146**	538,964	**476,129**	546,921
Available for sale investments	15	**75,133**	69,023	**61,753**	47,979
Loans and advances to banks	18	**40,898**	46,792	**51,175**	52,287
Loans and advances to customers	18	**425,729**	431,934	**474,723**	517,780
Reverse repurchase agreements and other similar secured lending	21	**176,956**	153,665	**174,284**	161,436
Prepayments, accrued income and other assets		**4,357**	4,560	**12,019**	10,384
Investments in associates and joint ventures	38	**570**	427	**174**	174
Investments in subsidiaries		**-**	-	**14,718**	22,073
Property, plant and equipment	22	**5,754**	7,166	**1,906**	1,937
Goodwill and intangible assets	23	**7,915**	7,846	**4,564**	4,333
Current tax assets	10	**252**	374	**119**	166
Deferred tax assets	10	**3,012**	3,010	**1,295**	1,104
Retirement benefit assets	36	**2,303**	1,803	**2,276**	1,708
Total assets		**1,490,747**	1,563,402	**1,515,163**	1,602,603
Liabilities					
Deposits from banks		**77,010**	91,116	**83,740**	108,816
Items in the course of collection due to other banks		**1,573**	969	**1,231**	966
Customer accounts		**385,796**	366,045	**481,126**	454,522
Repurchase agreements and other similar secured borrowing	21	**217,342**	207,292	**187,148**	193,453
Trading portfolio liabilities	12	**44,794**	45,887	**30,105**	28,632
Financial liabilities designated at fair value	16	**78,280**	87,997	**91,376**	101,069
Derivative financial instruments	14	**462,468**	527,798	**466,321**	535,837
Debt securities in issue		**119,581**	129,736	**85,173**	83,939
Subordinated liabilities	30	**24,422**	24,870	**22,941**	26,764
Accruals, deferred income and other liabilities	25	**12,232**	12,580	**14,996**	15,471
Provisions	26	**2,766**	1,529	**2,405**	939
Current tax liabilities	10	**617**	1,397	**304**	979
Deferred tax liabilities	10	**719**	695	**446**	348
Retirement benefit liabilities	36	**253**	321	**146**	109
Total liabilities		**1,427,853**	1,498,232	**1,467,458**	1,551,844
Shareholders' equity					
Shareholders' equity excluding non-controlling interests[a]		**60,038**	62,078	**47,705**	50,759
Non-controlling interests	33	**2,856**	3,092	**-**	-
Total shareholders' equity		**62,894**	65,170	**47,705**	50,759
Total liabilities and shareholders' equity		**1,490,747**	1,563,402	**1,515,163**	1,602,603

The financial statements on pages 131 to 136 were approved by the Board of Directors on 5 March 2013 and signed on its behalf by:

Sir David Walker
Group Chairman

Antony Jenkins
Group Chief Executive

Chris Lucas
Group Finance Director

Note
a As permitted by section 408(3) of the Companies Act 2006 an income statement for the parent company has not been presented. Included in shareholders' equity excluding non-controlling interests for 'The Bank' is a loss after tax for the year ended 31 December 2012 £2,720m (2011: profit of £1,994m).

Consolidated financial statements

Statement of changes in equity

The Group	Called up share capital and share premium[a]	Available for sale reserve[b]	Cash flow hedging reserve[b]	Currency translation reserve[b]	Other shareholder's equity[a]	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 January 2012	**14,494**	**(130)**	**1,442**	**1,348**	**648**	**44,276**	**62,078**	**3,092**	**65,170**
(Loss)/profit after tax	**-**	**-**	**-**	**-**	**-**	**(723)**	**(723)**	**339**	**(384)**
Currency translation movements	**-**	**-**	**-**	**(1,319)**	**-**	**-**	**(1,319)**	**(259)**	**(1,578)**
Available for sale investments	**-**	**656**	**-**	**-**	**-**	**-**	**656**	**44**	**700**
Cash flow hedges	**-**	**-**	**657**	**-**	**-**	**-**	**657**	**5**	**662**
Other	**-**	**-**	**-**	**-**	**1**	**93**	**94**	**1**	**95**
Total comprehensive income for the year	**-**	**656**	**657**	**(1,319)**	**1**	**(630)**	**(635)**	**130**	**(505)**
Issue of shares under employee share schemes	**-**	**-**	**-**	**-**	**-**	**717**	**717**	**-**	**717**
Vesting of Barclays PLC shares under share-based payment schemes	**-**	**-**	**-**	**-**	**-**	**(946)**	**(946)**	**-**	**(946)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(696)**	**(696)**	**(229)**	**(925)**
Dividends on preference shares and other shareholders' equity	**-**	**-**	**-**	**-**	**-**	**(465)**	**(465)**	**-**	**(465)**
Other reserve movements	**-**	**-**	**-**	**-**	**(4)**	**(11)**	**(15)**	**(137)**	**(152)**
Balance as at 31 December 2012	**14,494**	**526**	**2,099**	**29**	**645**	**42,245**	**60,038**	**2,856**	**62,894**
Balance as at 1 January 2011	14,494	(1,348)	152	2,357	2,069	41,450	59,174	3,467	62,641
Profit after tax	-	-	-	-	-	3,616	3,616	430	4,046
Currency translation movements	-	-	-	(1,009)	-	-	(1,009)	(598)	(1,607)
Available for sale investments	-	1,218	-	-	-	-	1,218	(6)	1,212
Cash flow hedges	-	-	1,290	-	-	-	1,290	(27)	1,263
Other	-	-	-	-	18	(92)	(74)	-	(74)
Total comprehensive income for the year	-	1,218	1,290	(1,009)	18	3,524	5,041	(201)	4,840
Issue of shares under employee share schemes	-	-	-	-	-	838	838	-	838
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	(499)	(499)	-	(499)
Dividends paid	-	-	-	-	-	(643)	(643)	(188)	(831)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	(539)	(539)	-	(539)
Redemption of Reserve Capital Instruments	-	-	-	-	(1,415)	-	(1,415)	-	(1,415)
Other reserve movements	-	-	-	-	(24)	145	121	14	135
Balance as at 31 December 2011	14,494	(130)	1,442	1,348	648	44,276	62,078	3,092	65,170

Notes
a For further details refer to Note 31.
b For further details refer to Note 32.

The Bank	Called up share capital and share premium[a] £m	Available for sale reserve[b] £m	Cash flow hedging reserve[b] £m	Currency translation reserve[b] £m	Other shareholders' equity[a] £m	Retained earnings £m	Total £m
Balance as at 1 January 2012	**14,494**	**(464)**	**1,366**	**(158)**	**712**	**34,809**	**50,759**
Loss after tax	-	-	-	-	-	(2,720)	(2,720)
Currency translation movements	-	-	-	(381)	-	-	(381)
Available for sale investments	-	938	-	-	-	-	938
Cash flow hedges	-	-	642	-	-	-	642
Other	-	-	-	-	-	4	4
Total comprehensive income for the year	-	938	642	(381)	-	(2,716)	(1,517)
Issue of shares under employee share schemes	-	-	-	-	-	76	76
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	(130)	(130)
Dividends paid	-	-	-	-	-	(697)	(697)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	(465)	(465)
Other reserve movements	-	-	-	-	(2)	(319)	(321)
Balance as at 31 December 2012	**14,494**	**474**	**2,008**	**(539)**	**710**	**30,558**	**47,705**
Balance as at 1 January 2011	14,494	(265)	39	126	2,133	33,518	50,045
Profit after tax	-	-	-	-	-	1,994	1,994
Currency translation movements	-	-	-	(284)	-	-	(284)
Available for sale investments	-	(199)	-	-	-	-	(199)
Cash flow hedges	-	-	1,327	-	-	-	1,327
Other	-	-	-	-	18	10	28
Total comprehensive income for the year	-	(199)	1,327	(284)	18	2,004	2,866
Issue of shares under employee share schemes	-	-	-	-	-	169	169
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	(56)	(56)
Capital injection from Barclays PLC	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(643)	(643)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	(539)	(539)
Redemption of Reserve Capital Instruments	-	-	-	-	(1,415)	-	(1,415)
Other reserve movements	-	-	-	-	(24)	356	332
Balance as at 31 December 2011	14,494	(464)	1,366	(158)	712	34,809	50,759

Notes
a For further details refer to Note 31.
b For further details refer to Note 32.

Consolidated financial statements
Consolidated cash flow statement

For the year ended 31 December	The Group		The Bank	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Continuing operations				
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:				
Profit/(loss) before tax	**99**	5,974	**(3,776)**	2,738
Adjustment for non-cash items:				
Allowance for impairment	**3,596**	5,602	**4,405**	4,397
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	**1,119**	1,104	**513**	467
Other provisions, including pensions	**3,057**	1,787	**2,998**	1,252
Net profit on disposal of investments and property, plant and equipment	**(524)**	(1,645)	**(558)**	(1,320)
Other non-cash movements	**5,018**	432	**3,881**	2,838
Changes in operating assets and liabilities				
Net decrease/(increase) in loans and advances to banks and customers	**1,167**	(13,182)	**42,571**	(3,992)
Net (increase)/decrease in reverse repurchase agreements and other similar lending	**(23,291)**	52,176	**(12,848)**	65,947
Net (decrease)/increase in deposits and debt securities in issue	**(4,518)**	6,711	**2,762**	(10,342)
Net increase/(decrease) in repurchase agreements and other similar borrowing	**10,050**	(18,266)	**(6,305)**	(20,754)
Net decrease in derivative financial instruments	**4,488**	3,618	**1,276**	3,818
Net decrease in trading assets	**6,893**	21,423	**10,244**	9,906
Net (decrease)/increase in trading liabilities	**(973)**	(26,899)	**1,473**	(15,720)
Net (increase) in financial investments	**(18,838)**	(4,255)	**(47,387)**	(11,344)
Net decrease/(increase) in other assets	**555**	122	**(1,077)**	3,764
Net (decrease) in other liabilities	**(1,396)**	(4,148)	**(2,298)**	(5,166)
Corporate income tax paid	**(1,516)**	(1,686)	**(130)**	(239)
Net cash from operating activities	**(15,014)**	28,868	**(4,256)**	26,250
Purchase of available for sale investments	**(80,796)**	(67,525)	**(78,360)**	(66,546)
Proceeds from sale or redemption of available for sale investments	**74,148**	66,941	**64,632**	68,111
Purchase of property, plant and equipment	**(604)**	(1,454)	**(377)**	(519)
Other cash flows associated with investing activities	**532**	126	**4,819**	(1,521)
Net cash from investing activities	**(6,720)**	(1,912)	**(9,286)**	(475)
Dividends paid	**(1,390)**	(1,370)	**(1,162)**	(1,182)
Proceeds of borrowings and issuance of subordinated debt	**2,258**	880	**1,894**	880
Repayments of borrowings and redemption of subordinated debt	**(2,680)**	(4,003)	**(4,996)**	(2,656)
Net redemption of shares and other equity instruments	**-**	(1,257)	**-**	(1,257)
Net redemption of shares issued to non-controlling interests	**(111)**	-	**-**	-
Net cash from financing activities	**(1,923)**	(5,750)	**(4,264)**	(4,215)
Effect of exchange rates on cash and cash equivalents	**(4,109)**	(2,933)	**(3,102)**	(1,997)
Net (decrease)/increase in cash and cash equivalents	**(27,766)**	18,273	**(20,908)**	19,563
Cash and cash equivalents at beginning of year	**149,673**	131,400	**128,572**	109,009
Cash and cash equivalents at end of year	**121,907**	149,673	**107,664**	128,572
Cash and cash equivalents comprise:				
Cash and balances at central banks	**86,175**	106,894	**81,996**	103,087
Loans and advances to banks with original maturity less than three months	**33,500**	40,481	**25,304**	24,963
Available for sale treasury and other eligible bills with original maturity less than three months	**2,228**	2,209	**360**	433
Trading portfolio assets with original maturity less than three months	**4**	89	**4**	89
	121,907	149,673	**107,664**	128,572

Interest received by the Group in 2012 was £24,390m (2011: £28,673m) and interest paid by the Group in 2012 was £16,701m (2011: £20,106m).

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

Note
a 2011 amounts have been restated to include £1,864m additional balances held with central banks and other regulatory authorities.

Notes to the financial statements
Significant accounting policies

Accounting Policies

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 critical accounting estimate relates to a specific note, the applicable accounting policy and/or critical accounting estimate is contained within the relevant note.

1 Significant accounting policies

1. Reporting entity
These financial statements are prepared for Barclays Bank PLC 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, Barclays Bank PLC (the Bank). Barclays Bank PLC is a public limited company, incorporated and domiciled in England and Wales having a registered office in England and is the holding company of the Group.

2. Compliance with International Financial Reporting Standards
The consolidated financial statements of the Barclays Bank PLC Group, and the individual financial statements of Barclays Bank PLC, have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied. There were no changes in accounting policy in the year.

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

4. Accounting policies
Barclays prepares financial statements in accordance with IFRS. 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 IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities (SPEs).*

The consolidated financial statements combine the financial statements of Barclays Bank PLC and all its subsidiaries. Subsidiaries are entities over which it has control of the financial and operating policies through its holdings of voting shares and special purpose entities, which are consolidated when the substance of the relationship between the Group and the entity indicates control. The control assessment for special purpose entities includes an assessment of the Group's exposure to the risks and benefits of the entity.

The consolidation of SPEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The initial consolidation analysis is revisited at a later date if:

- The Group acquires additional interests in the entity;
- The contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; and
- The Group acquires control over the main operating and financial decisions of the entity.

There are a number of subsidiaries in which the Group has less than half of the voting rights which are consolidated when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

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

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

Details of the principal subsidiaries are given in Note 37.

Notes to the financial statements

Significant accounting policies

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.

(iii) Financial assets and liabilities

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

Recognition

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

Classification and measurement

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

The accounting policy for each type of financial asset or liability is included within the relevant note for the item. The Group's policies for determining the fair values of the assets and liabilities are set out in Note 17.

Derecognition

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

Financial liabilities are de-recognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% in the present value of the cash flows – 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 assets and liabilities, 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 will compare the Group's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

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

(iv) Issued debt and equity instruments

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

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the annual general meeting 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.**

1 Significant accounting policies (continued)

5. Future accounting developments

As at 31 December 2011 the IASB had issued the following accounting standards. These are effective on 1 January 2013, unless otherwise indicated:

-IFRS 10 *Consolidated Financial Statements* which replaces certain requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities*. This introduces new criteria to determine whether entities in which the Group has interests should be consolidated. The implementation of IFRS 10 will result in the Group consolidating some entities that were previously not consolidated and no longer consolidating some entities that were previously consolidated. The financial impact on the Group as at 31 December 2012 if IFRS 10 had been adopted at that date would have been to decrease assets by £144m, increase liabilities by £333m and decrease total shareholders' equity by £477m. Consolidated profit after tax for the year ended 31 December 2012 would have increased by £439m (calculated by applying the transition relief guidance set out in the June 2012 Amendment to IFRS 10 for interests in entities disposed of prior to January 1 2013). The impact on the Core Tier 1 ratio would have been a 12bps decrease.

-IFRS 11 *Joint Arrangements*, which replaces IAS 31 *Interests in Joint Ventures*. This specifies the accounting for joint arrangements whether these are joint operations or joint ventures. It is not expected to have a material impact on the Group;

-IFRS 12 *Disclosures of Interests in Other Entities* This 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;

-IFRS 13 *Fair Value Measurement*. This provides comprehensive guidance on how to calculate the fair value of financial and non-financial assets and liabilities. It is not expected to have a material impact on the Group financial statements;

-IAS 19 *Employee Benefits* (Revised 2011). This requires that actuarial gains and losses arising from defined benefit pension schemes are recognised in full. Previously the Group deferred these over the remaining average service lives of the employees (the 'corridor' approach). See Note 36 for more information and an estimate of the financial effects of adoption; and

-IAS 32 and IFRS 7 Amendments: *Offsetting Financial Assets and Financial Liabilities*. The circumstances in which netting is permitted have been clarified and disclosures on offsetting have been considerably expanded. The amendments on offsetting are effective from 1 January 2014 and those on disclosures from 1 January 2013.

In 2009 and 2010, the IASB issued IFRS 9 *Financial Instruments* which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way that the Group accounts for financial instruments. The key changes issued and proposed relate to:

-Financial assets. Financial assets will be held at either fair value or amortised cost, except for equity investments not held for trading, and certain eligible debt instruments which, may be held at fair value through other comprehensive income;

-Financial liabilities. Gains and losses on fair value changes in own credit arising on non-derivative financial liabilities designated at fair value through profit or loss will be excluded from the Income Statement and instead taken to other comprehensive income;

-Impairment. Credit losses expected (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances; and

-Hedge accounting. Hedge accounting will be more closely aligned with financial risk management.

Adoption is not mandatory until periods beginning on or after 1 January 2015, subject to EU endorsement. Earlier adoption is possible, subject to endorsement. At this stage, it is not possible to determine the potential financial impacts of adoption on the Group.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

Critical accounting estimates and judgements

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

Notes to the financial statements
Significant accounting policies

1 Significant accounting policies (continued)

	Page		Page
Credit impairment charges and other provisions	144	Goodwill and intangible assets	183
Income taxes	146	Provisions	189
Available for sale investments	159	Retirement benefit obligations	209
Fair value of financial instruments	160		

6. 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 section as follows:

-segmental reporting on pages 112 to 127
-credit risk, on pages 23 to 29, including exposures to selected countries.
-market risk, on pages 60 to 65;
-funding risk - capital, on pages 66 to 70; and
-funding risk - liquidity risk, on pages 71 to 95.

These are covered by the Audit opinion included on page 129.

Notes to the financial statements
Performance

Performance

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

2 Segmental reporting

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

An analysis of the Group's performance by business segment and income by geographic segment is included on pages 112 and 113.

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), there are no individual estimates that are material to the results or financial position.

See also Note 13 - Financial assets designated at fair value and Note 16 - Financial liabilities designated at fair value for relevant accounting policies.

	2012 £m	2011 £m
Cash and balances with central banks	**253**	392
Available for sale investments	**1,720**	2,137
Loans and advances to banks	**369**	350
Loans and advances to customers	**16,461**	17,271
Other	**396**	439
Interest income	**19,199**	20,589
Deposits from banks	**(257)**	(366)
Customer accounts	**(2,485)**	(2,531)
Debt securities in issue	**(2,929)**	(3,524)
Subordinated liabilities	**(1,632)**	(1,813)
Other	**(261)**	(159)
Interest expense	**(7,564)**	(8,393)
Net interest income	**11,635**	12,196

Interest income includes £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 in Note 14.

Net interest income declined by 5% to £11,635m. Interest income decreased by 7% to £19,199m, driven by a reduction in income from loans and advances to customers, which fell £810m to £16,461m, and interest income derived from AFS financial investments, which fell £417m to £1,720m. 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 £291m increase in Barclaycard reflecting increased average loan balances primarily due to the Egg acquisition. The fall in interest from AFS 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 £7,564m, driven by a reduction in interest on debt securities in issue of £595m to £2,929m 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.

Notes to the financial statements
Performance

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.

	2012 £m	2011 £m
Banking, investment management and credit related fees and commissions	9,948	9,958
Brokerage fees	92	87
Foreign exchange commission	176	163
Fee and commission income	**10,216**	10,208
Fee and commission expense	**(1,634)**	(1,586)
Net fee and commission income	**8,582**	8,622

Net fee and commission income remained stable with a £40m decline to £8,582m. 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.

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 and margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/(losses) arise from the fair valuation of financial liabilities designated at fair value through profit or loss. See Note 16 Financial liabilities designated at fair value.

	2012 £m	2011 £m
Trading income	7,607	5,030
Own credit (losses)/gains	(4,579)	2,708
Net trading income	**3,028**	7,738

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

Net trading income decreased 61% to £3,028m, 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 £2,577m 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.

6 Net investment income

Accounting for net investment income

Dividends are recognised when the right to receive the dividend has been established. Other accounting policies relating to net investment income are set out in Note 15, Available for sale financial assets, and Note 13, Financial assets designated at fair value.

	2012 £m	2011 £m
Net gain from disposal of available for sale investments	**297**	1,652
Dividend income	**42**	139
Net gain from financial assets designated at fair value	**206**	287
Other investment income	**118**	244
Net investment income	**663**	2,322

Net investment income decreased by £1,659m to £663m largely driven by the non-recurrence of gains on disposal of 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.

7 Credit impairment charges and impairment on available for sale investments

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.

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 accrued, 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.

Notes to the financial statements
Performance

7 Credit impairment charges and impairment on available for sale investments (continued)

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

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

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these retail portfolios is £2,075m (2011: £2,477m) and amounts to 58% (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 £1,484m (2011: £1,313m) and amounts to 42% (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 section.

	2012 £m	2011 £m
New and increased impairment allowances	**4,703**	4,962
Releases	**(928)**	(931)
Recoveries	**(212)**	(265)
Impairment charges on loans and advances	**3,563**	3,766
(Releases)/charges in respect of provision for undrawn contractually committed facilities and guarantees provided	**(4)**	24
Loan impairment	**3,559**	3,790
Impairment charges on available for sale investments	**40**	60
Impairment releases on reverse repurchase agreements	**(3)**	(48)
Credit impairment charges and other provisions	**3,596**	3,802
Impairment of investment in BlackRock, Inc.	**-**	1,800

Loan impairment fell 6% to £3,559m, reflecting lower impairment in UKRBB, Barclaycard and Corporate Banking, partially offset by higher charges in Europe and South Africa and a higher charge in Investment Bank. The increase in the Investment Bank was primarily related to ABS CDO Super Senior positions and losses on a small number of single name exposures. The prior year included a non-recurring release of £223m.

8 Administration and general expenses

	2012 £m	2011 £m
Property and equipment	1,655	1,763
Outsourcing and professional services	2,179	1,864
Operating lease rentals	622	659
Marketing, advertising and sponsorship	572	585
Subscriptions, publications, stationery and communications	727	740
Travel and accommodation	323	328
Other administration and general expenses	543	400
Impairment of property, equipment and intangible assets	17	12
Administration and general expenses	**6,638**	6,351

Administration and general expenses increased £287m to £6,638m, primarily due to the £290m penalty relating to the industry wide investigation into the setting of interbank offered rates. An increase in expenses relating to the Financial Services Compensation Scheme were offset by a reduction in the underlying cost base reflecting the impact of the Group-wide cost reduction initiative.

Auditors' remuneration
Auditors' remuneration is included within the outsourcing and professional services costs in Administration and general expenses and comprises:

	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
2012					
Audit of the Group's annual accounts	10	-	-	-	10
Other services:					
Fees payable for the Company's associates pursuant to legislation[a]	25	-	-	-	25
Other services supplied pursuant to such legislation[b]	-	4	-	-	4
Other services relating to taxation					
- compliance services	-	-	2	-	2
- advisory services[c]	-	-	-	-	-
Other	-	2	-	1	3
Total auditors' remuneration	35	6	2	1	44
2011					
Audit of the Group's annual accounts	13	-	-	-	13
Other services:					
Fees payable for the Company's associates pursuant to legislation[a]	26	-	-	-	26
Other services supplied pursuant to such legislation[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 £7m (2011: £6m).

Notes
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. The fees relating to the audit of the associated pension schemes were £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.

Notes to the financial statements
Performance

9 Profit on disposal of subsidiaries, associates and joint ventures

During the year, the profit on disposal of subsidiaries, associates and joint ventures was £28m (2011: loss of £94m), principally relating to the disposal of The Group's 51% stake in Iveco Finance in May 2012. The Iveco gain on disposal of £21m relates to accumulated foreign exchange gains that were previously recognised directly in equity and were recycled through the income statement within Head Office and Other Operations.

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.

	2012 £m	2011 £m
Current tax charge		
Current year	**565**	2,690
Adjustment for prior years	**207**	(61)
	772	2,629
Deferred tax charge/(credit)		
Current year	**(202)**	(631)
Adjustment for prior years	**(87)**	(70)
	(289)	(701)
Tax charge	**483**	1,928

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 credit of £95m (2011: £74m charge) principally relating to share based payments.

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.

	2012 £m	2011 £m
Profit before tax from continuing operations	**99**	5,974
Tax charge based on the standard UK corporation tax rate of 24.5% (2011:26.5%)	**24**	1,583
Effect of non-UK profits or losses at local statutory tax rates different from the UK statutory tax rate	**402**	190
Non-creditable taxes	**563**	567
Non-taxable gains and income	**(604)**	(519)
Impact of share price movements on share based payments	**(63)**	147
Deferred tax assets (previously not recognised)/not recognised	**(135)**	(816)
Change in tax rates	**(75)**	17
Non-deductible impairment charges, loss on disposals and UK bank levy	**84**	770
Other items including non-deductible expenses	**167**	120
Adjustments in respect of prior years	**120**	(131)
Tax charge	**483**	1,928
Effective tax rate	**488%**	32%

10 Tax (continued)

Current tax assets and liabilities

Movements on current assets and liabilities were as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	£m	£m	£m	£m
Assets	374	196	166	161
Liabilities	(1,397)	(646)	(979)	(126)
As at 1 January	(1,023)	(450)	(813)	35
Income statement	(772)	(2,629)	798	(696)
Equity	(172)	104	(290)	120
Corporate income tax paid	1,516	1,686	130	(239)
Other movements	86	266	(10)	(33)
	(365)	(1,023)	(185)	(813)
Assets	252	374	119	166
Liabilities	(617)	(1,397)	(304)	(979)
As at 31 December	(365)	1,023	(185)	(813)

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

Deferred tax assets and liabilities

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

		The Group		The Bank
	2012	2011	2012	2011
	£m	£m	£m	£m
Barclays Group US Inc. tax group (BGUS)	1,113	1,039	-	-
US Branch of Barclays Bank PLC (US Branch)	924	704	949	704
Spanish tax group	602	696	232	311
Other	373	571	114	89
Deferred tax asset	3,012	3,010	1,295	1,104
Deferred tax liability	(719)	(695)	(446)	(348)
Net deferred tax	2,293	2,315	849	756

US deferred tax assets in BGUS and the US Branch

The deferred tax asset in BGUS and the US Branch includes amounts relating to tax losses of £135m (2011: £329m) and £834m (2011: £603m) 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 deferred tax asset for the US Branch has been measured using a marginal tax rate being the excess of the US tax rate (a combination of Federal, City and State taxes) over the UK statutory rate.

BGUS returned to profitability in 2012, primarily driven by Barclays Capital Inc., its US Broker Dealer, with tax losses expected to be fully utilised in 2013. 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 2018, based on profit forecasts covering the period from 2013 to 2015, with no profit growth assumed after 2015. A 20% reduction in forecasted profit would extend the recovery period by 2 years to 2020. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

Spain deferred tax asset

The deferred tax asset in Spain includes £322m (2011: £417m) relating to tax losses incurred from 2010 to 2012. In accordance with Spanish tax rules tax losses can be carried forward and offset against profits for a period of 18 years. The remaining balance primarily relates to temporary differences which are not time limited. The asset has reduced to £602m (2011: £696m) reflecting a lower anticipated tax rate.

Notes to the financial statements
Performance

10 Tax (continued)
The 2010 to 2012 tax losses are expected to be fully utilised by 2023. Additional losses are anticipated to arise in 2013, partly relating to restructuring costs. The recoverability of the deferred tax asset has been determined using business profit forecasts covering the period from 2013 to 2016, with a subsequent annual growth rate of 2% p.a. A 20% reduction in forecast profits for 2016 and each subsequent year would extend the recovery period of the tax losses by two years to 2025. A reduction in profits of more than this may result in a partial impairment of the deferred tax asset depending upon the timing of the reversal of deductible temporary differences. The forecast assumptions do not include any incremental tax planning strategies.

Other deferred tax assets
The deferred tax asset of £373m (2011: £571m) in other entities includes £55m (2011: £144m) 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 £135m (2011: £189m) relating to tax losses carried forward and temporary differences. Recognition is based on profit forecasts which indicate that it is probable that the entities will have future taxable profits against which the losses and temporary differences can be utilised. There is no net deferred tax asset in the UK.

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

The Group	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Retirement benefit obligations £m	Loan impairment allowance £m	Other provisions £m	Tax losses carried forward £m	Share based payments £m	Other £m	Total £m
Assets	**254**	**186**	**-**	**85**	**431**	**261**	**1,493**	**356**	**1,435**	**4,501**
Liabilities	**(404)**	**(65)**	**(489)**	**(132)**	**-**	**-**	**-**	**-**	**(1,096)**	**(2,186)**
At 1 January 2012	**(150)**	**121**	**(489)**	**(47)**	**431**	**261**	**1,493**	**356**	**339**	**2,315**
Income statement	**60**	**(49)**	**(30)**	**(185)**	**86**	**(134)**	**130**	**171**	**240**	**289**
Equity	**-**	**(67)**	**(146)**	**3**	**-**	**-**	**-**	**(12)**	**(6)**	**(228)**
Other movements	**23**	**(11)**	**4**	**(15)**	**(60)**	**(22)**	**13**	**(19)**	**4**	**(83)**
	(67)	**(6)**	**(661)**	**(244)**	**457**	**105**	**1,636**	**496**	**577**	**2,293**
Assets	**158**	**61**	**53**	**134**	**457**	**105**	**1,636**	**496**	**1,408**	**4,508**
Liabilities	**(225)**	**(67)**	**(714)**	**(378)**	**-**	**-**	**-**	**-**	**(831)**	**(2,215)**
At 31 December 2012	**(67)**	**(6)**	**(661)**	**(244)**	**457**	**105**	**1,636**	**496**	**577**	**2,293**
Assets	134	76	-	118	345	162	1,558	372	668	3,433
Liabilities	(558)	(43)	(109)	-	-	-	-	-	(720)	(1,430)
At 1 January 2011	(424)	33	(109)	118	345	162	1,558	372	(52)	2,003
Income statement	267	10	-	(180)	91	110	(54)	37	420	701
Equity	-	73	(393)	-	-	-	-	(82)	3	(399)
Other movements	7	5	13	15	(5)	(11)	(11)	29	(32)	10
	(150)	121	(489)	(47)	431	261	1,493	356	339	2,315
Assets	254	186	-	85	431	261	1,493	356	1,435	4,501
Liabilities	(404)	(65)	(489)	(132)	-	-	-	-	(1,096)	(2,186)
At 31 December 2011	(150)	121	(489)	(47)	431	261	1,493	356	339	2,315

10 Tax (continued)

The Bank

	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Retirement benefit obligations £m	Loan impairment allowance £m	Other provisions £m	Tax losses carried forward £m	Share based payments £m	Other £m	Total £m
Assets	77	-	-	-	270	49	1,057	47	158	1,658
Liabilities	-	(6)	(458)	(114)	-	-	-	-	(324)	(902)
At 1 January 2012	77	(6)	(458)	(114)	270	49	1,057	47	(166)	756
Income statement	(41)	(27)	-	(195)	(32)	(27)	287	25	268	258
Equity	-	12	(132)	-	-	-	-	14	(4)	(110)
Other movements	(11)	4	-	(11)	(22)	-	11	(5)	(21)	(55)
	25	(17)	(590)	(320)	216	22	1,355	81	77	849
Assets	89	11	54	57	216	22	1,355	81	329	2,214
Liabilities	(64)	(28)	(644)	(377)	-	-	-	-	(252)	(1,365)
At 31 December 2012	25	(17)	(590)	(320)	216	22	1,355	81	77	849
Assets	-	1	-	54	138	-	983	24	215	1,415
Liabilities	(44)	-	(64)	-	-	(47)	-	-	(35)	(190)
At 1 January 2011	(44)	1	(64)	54	138	(47)	983	24	180	1,225
Income statement	117	-	-	(184)	147	97	(73)	3	(159)	(52)
Equity	-	(6)	(394)	-	-	-	-	(10)	8	(402)
Other movements	4	(1)	-	16	(15)	(1)	147	30	(195)	(15)
	77	(6)	(458)	(114)	270	49	1,057	47	(166)	756
Assets	77	-	-	-	270	49	1,057	47	158	1,658
Liabilities	-	(6)	(458)	(114)	-	-	-	-	(324)	(902)
At 31 December 2011	77	(6)	(458)	(114)	270	49	1,057	47	(166)	756

Other movements include deferred tax amounts relating to acquisitions, disposals and exchange.

The amount of deferred tax liability expected to be settled after more than 12 months for the Group is £1,714m (2011: £1,044m) and for the Bank is £922m (2011: £958m). The amount of deferred tax asset expected to be recovered after more than 12 months for The Group is £2,990m (2011: £2,050m) and for the Bank is £1,323m (2011: £1,172m). These amounts are before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax

For The Group, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £28m (2011: £1,163m), gross tax losses of £7,295m (2011: £2,299m) which includes capital losses of £3,358m (2011: £2,034m), and unused tax credits of £155m (2011: £nil). Tax losses of £3m (2011: £97m) expire within 5 years, £83m (2011: £101m) expire within 6 to10 years, £5m (2011: £5m) expire within 11 to 20 years and £7,204m (2011: £2,096m) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which The Group can utilise benefits.

For the Bank, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £nil (2011: £1,125m), gross tax losses of £2,757m (2011: £260m) which includes capital losses of £2,733m (2011: £190m), and unused tax credits of £150m (2011: £nil). Tax losses of £nil (2011: £24m) expire within 5 years, £nil (2011: £20m) expire within 6 to10 years, £nil (2011: £nil) expire within 11 to 20 years and £2,757m (2011: £216m) can be carried forward indefinitely. Unrecognised losses that expire within 11 to 20 years have decreased because of an increased recognition of the deferred tax asset in the US Branch as a result of improved financial performance. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which the Bank can utilise benefits.

Deferred tax is not recognised in respect of The Group's investments in subsidiaries and branches where remittance is not contemplated and for those associates and interests in joint ventures where it has been determined that no additional tax will arise. The aggregate amount of temporary differences for which deferred tax liabilities have not been recognised is £836m (2011: £703m).

Notes to the financial statements
Performance

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 recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

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

11 Dividends

Ordinary dividends were paid to enable Barclays Plc to fund its dividend to shareholders.

Dividends per ordinary share in relation to 2012 dividends were 15p (2011: 15p), including the prior year final dividend paid during the year results in a dividend per ordinary share of 30p (2011: 27p). The 2012 financial statements include the 2012 interim dividends of £352m (2011: £355m) and final dividend declared in relation to 2011 of £344m (2011: £288m).

Dividends paid on the 4.75% €100 preference shares amounted to £399.40 per share (2011: £408.27). Dividends paid on the 4.875% €100 preference shares amounted to £394.33 per share (2011: £412.64). Dividends paid on the 6.0% £100 preference shares amounted to £600.00 per share (2011: £600.00). Dividends paid on the 6.278% US$100 preference shares amounted to £396.43 per share (2011: £394.48). Dividends paid on the 6.625% US$0.25 preference shares amounted to £1.05 per share (2011: £1.04). Dividends paid on the 7.1% US$0.25 preference shares amounted to £1.12 per share (2011: £1.11). Dividends paid on the 7.75% US$0.25 preference shares amounted to £1.22 per share (2011: £1.22). Dividends paid on the 8.125% US$0.25 preference shares amounted to £1.28 per share (2011: £1.28).

Dividends paid on preference shares amounted to £465m (2011: £467m). Dividends paid on other equity instruments amounted to £4m (2011: £72m).

Notes to the financial statements
Assets and liabilities held at fair value

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 based on available market data. Detail regarding the Group's approach to managing market risk can be found on pages 60 to 65.

12 Trading portfolio

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

	The Group		The Bank	
	2012 £m	2011 £m	2012 £m	2011 £m
Debt securities and other eligible bills	**114,759**	123,364	**64,827**	77,279
Equity securities	**24,751**	24,861	**4,503**	3,944
Traded loans	**2,404**	1,374	**2,393**	1,361
Commodities	**3,116**	2,584	**2,996**	2,464
Trading portfolio assets	**145,030**	152,183	**74,719**	85,048
Debt securities and other eligible bills	**(36,742)**	(35,063)	**(26,968)**	(23,347)
Equity Securities	**(7,979)**	(10,741)	**(3,067)**	(5,205)
Commodities	**(73)**	(83)	**(70)**	(80)
Trading portfolio liabilities	**(44,794)**	(45,887)	**(30,105)**	(28,632)

13 Financial assets designated at fair value

Accounting for financial assets designated at fair value
In accordance with IAS 39, financial assets may be designated at fair value, with gains and losses taken to the income statement in net trading income (Note 5) and net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 14).

	The Group		The Bank	
	2012 £m	2011 £m	2012 £m	2011 £m
Loans and advances	**21,996**	21,960	**21,065**	21,899
Debt securities	**6,118**	2,095	**56,500**	19,198
Equity securities	**8,957**	4,018	**45**	36
Reverse repurchase agreements	**6,034**	5,779	**3,602**	2,492
Customers' assets held under investment contracts	**1,263**	1,302	**-**	-
Other financial assets	**1,693**	1,795	**1,025**	927
Financial assets designated at fair value	**46,061**	36,949	**82,237**	44,552

The total portfolio of linked liabilities to customers under investment contracts also includes £231m (2011: £379m) of cash and bank balances included within cash and balances at central banks. The carrying value of the total portfolio assets equals the carrying value of the liabilities to customers under investment contracts as shown in Note 16. Any change in the value of the assets results in an equal but opposite change in the value of the amounts due to the policyholders. Therefore, the Group is not exposed to the financial risks inherent in the investments.

Notes to the financial statements
Assets and liabilities held at fair value

13 Financial assets designated at fair value (continued)

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

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

	The Group						The Bank					
	Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception		Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Loans and advances designated at fair value, attributable to credit risk	**21,996**	21,960	**178**	(75)	**(4,892)**	(5,070)	**21,065**	21,899	**175**	(94)	**(3,317)**	(3,492)
Fair value of related credit derivatives	**1,342**	1,198	**(6)**	138	**395**	401	**1,342**	1,198	**(6)**	138	**378**	384

14 Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are discussed in the Risk review section on pages11 to 105. Trading derivatives are managed within the Group's market risk management policies, which are outlined on pages 60 to 65.

The Group's exposure to credit risk arising from derivative contracts, as well as the Group's participation in exchange traded and over the counter derivatives markets are outlined in the Credit Risk section on page 39.

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 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.

14 Derivative financial instruments (continued)

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 being recognised directly in other comprehensive income and the ineffective portion being recognised immediately in the income statement. The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation, or other reductions in the Group's investment in the operation.

Types of derivatives held

Foreign exchange derivatives

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

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

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

Interest rate derivatives

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

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

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

Credit derivatives

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

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.

Notes to the financial statements
Assets and liabilities held at fair value

14 Derivative financial instruments (continued)

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

	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Year ended 31 December 2012						
Total derivative assets/(liabilities) held for trading	**40,192,194**	**465,347**	**(459,334)**	**37,956,081**	**472,720**	**(463,468)**
Total derivative assets/(liabilities) held for risk management	**302,822**	**3,799**	**(3,134)**	**281,775**	**3,409**	**(2,853)**
Derivative assets/(liabilities)	**40,495,016**	**469,146**	**(462,468)**	**38,237,856**	**476,129**	**(466,321)**
Year ended 31 December 2011						
Total derivative assets/(liabilities) held for trading	43,095,991	535,306	(524,440)	42,835,377	543,434	(532,017)
Total derivative assets/(liabilities) held for risk management	243,534	3,658	(3,358)	237,538	3,487	(3,820)
Derivative assets/(liabilities)	43,339,525	538,964	(527,798)	43,072,915	546,921	(535,837)

The fair value of derivative assets decreased by 13% to £469bn reflecting the tightening of credit spreads, and trades matured and terminated during the period. Derivative asset exposures would be £435bn (2011: £492bn) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold cash collateral. Similarly, derivative liabilities would be £427bn (2011: £478bn) lower reflecting counterparty netting and collateral placed.

14 Derivative financial instruments (continued)

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

Derivatives held for trading	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Year ended 31 December 2012						
Foreign exchange derivatives						
Forward foreign exchange	2,421,109	25,670	(26,665)	2,407,452	25,559	(26,528)
Currency swaps	1,277,523	28,007	(31,456)	1,253,007	27,786	(31,259)
OTC options bought and sold	604,777	5,581	(5,663)	603,022	5,542	(5,648)
OTC derivatives	4,303,409	59,258	(63,784)	4,263,481	58,887	(63,435)
Exchange traded futures and options – bought and sold	120,328	41	(37)	120,184	41	(37)
Foreign exchange derivatives	4,423,737	59,299	(63,821)	4,383,665	58,928	(63,472)
Interest rate derivatives						
Interest rate swaps	6,676,588	264,830	(249,566)	5,414,040	262,596	(247,400)
Forward rate agreements	3,757,855	1,521	(1,483)	3,502,403	1,241	(1,159)
OTC options bought and sold	4,378,143	84,844	(85,517)	4,368,736	84,807	(85,430)
OTC derivatives	14,812,586	351,195	(336,566)	13,285,179	348,644	(333,989)
Interest rate derivatives cleared by central counterparty	17,103,792	172	(58)	15,935,724	168	(52)
Exchange traded futures and options – bought and sold	1,079,453	6	(1)	1,044,863	-	-
Interest rate derivatives	32,995,831	351,373	(336,625)	30,265,766	348,812	(334,041)
Credit derivatives						
OTC swaps	1,529,984	29,788	(29,198)	1,519,438	29,774	(29,190)
Credit derivatives cleared by central counterparty	238,196	9	(10)	222,802	-	-
Credit derivatives	1,768,180	29,797	(29,208)	1,742,240	29,774	(29,190)
Equity and stock index derivatives						
OTC options bought and sold	87,397	6,131	(9,391)	83,335	6,071	(9,128)
Equity swaps and forwards	74,098	1,762	(2,420)	62,004	1,539	(1,217)
OTC derivatives	161,495	7,893	(11,811)	145,339	7,610	(10,345)
Exchange traded futures and options – bought and sold	347,965	3,092	(3,192)	92,459	(11)	(128)
Equity and stock index derivatives	509,460	10,985	(15,003)	237,798	7,599	(10,473)
Commodity derivatives						
OTC options bought and sold	81,787	1,786	(1,987)	81,369	1,777	(1,980)
Commodity swaps and forwards	164,771	11,441	(12,074)	164,664	11,434	(12,065)
OTC derivatives	246,558	13,227	(14,061)	246,033	13,211	(14,045)
Exchange traded futures and options – bought and sold	248,428	666	(616)	248,428	664	(616)
Commodity derivatives	494,986	13,893	(14,677)	494,461	13,875	(14,661)
Derivatives with subsidiaries				832,151	13,732	(11,631)
Derivative assets/(liabilities) held for trading	40,192,194	465,347	(459,334)	37,956,081	472,720	(463,468)
Total OTC derivatives held for trading	21,054,032	461,361	(455,420)	19,459,470	458,126	(451,004)
Total derivatives cleared by central counterparty held for trading	17,341,988	181	(68)	16,158,526	168	(52)
Total exchange traded derivatives held for trading	1,796,174	3,805	(3,846)	1,505,934	694	(781)
Derivatives with subsidiaries held for trading	-	-	-	832,151	13,732	(11,631)
Derivative assets/(liabilities) held for trading	40,192,194	465,347	(459,334)	37,956,081	472,720	(463,468)

Notes to the financial statements
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14 Derivative financial instruments (continued)

Derivatives held for trading	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Year ended 31 December 2011						
Foreign exchange derivatives						
Forward foreign exchange	2,346,638	29,165	(26,968)	2,312,524	28,685	(26,055)
Currency swaps	1,158,267	27,388	(33,641)	1,128,168	26,637	(32,877)
OTC options bought and sold	713,690	7,269	(6,669)	711,489	7,239	(6,637)
OTC derivatives	4,218,595	63,822	(67,278)	4,152,181	62,561	(65,569)
Exchange traded futures and options – bought and sold	234,279	-	(2)	253,801	-	-
Foreign exchange derivatives	4,452,874	63,822	(67,280)	4,405,982	62,561	(65,569)
Interest rate derivatives						
Interest rate swaps	8,974,201	251,629	(240,849)	8,770,089	249,513	(238,468)
Forward rate agreements	4,556,842	3,249	(3,374)	4,218,994	2,372	(2,413)
OTC options bought and sold	5,426,331	117,689	(113,214)	5,412,639	117,599	(113,071)
OTC derivatives	18,957,374	372,567	(357,437)	18,401,722	369,484	(353,952)
Interest rate derivatives cleared by central counterparty	15,543,970	-	-	15,543,970	166	(304)
Exchange traded futures and options– bought and sold	1,040,636	3	(3)	971,590	-	-
Interest rate derivatives	35,541,980	372,570	(357,440)	34,917,282	369,650	(354,256)
Credit derivatives						
OTC swaps	1,666,786	60,481	(57,972)	1,649,880	60,433	(57,897)
Credit derivatives cleared by central counterparty	219,864	2,831	(3,376)	219,073	2,825	(3,390)
Credit derivatives	1,886,650	63,312	(61,348)	1,868,953	63,258	(61,287)
Equity and stock index derivatives						
OTC options bought and sold	95,233	7,393	(10,768)	88,006	7,253	(10,219)
Equity swaps and forwards	167,098	2,516	(2,696)	43,167	2,355	(1,693)
OTC derivatives	262,331	9,909	(13,464)	131,173	9,608	(11,912)
Exchange traded futures and options– bought and sold	237,779	3,293	(2,616)	82,584	-	(4)
Equity and stock index derivatives	500,110	13,202	(16,080)	213,757	9,608	(11,916)
Commodity derivatives						
OTC options bought and sold	91,573	2,810	(2,554)	84,131	2,806	(2,548)
Commodity swaps and forwards	300,100	17,778	(17,579)	299,271	17,724	(17,491)
OTC derivatives	391,673	20,588	(20,133)	383,402	20,530	(20,039)
Exchange traded futures and options – bought and sold	322,704	1,812	(2,159)	322,704	1,813	(2,158)
Commodity derivatives	714,377	22,400	(22,292)	706,106	22,343	(22,197)
Derivatives with subsidiaries				723,297	16,014	(16,792)
Derivative assets/(liabilities) held for trading	43,095,991	535,306	(524,440)	42,835,377	543,434	(532,017)
Total OTC derivatives held for trading	25,496,759	527,367	(516,284)	24,718,358	522,616	(509,369)
Total derivatives cleared by central counterparty held for trading	15,763,834	2,831	(3,376)	15,763,043	2,991	(3,694)
Total exchange traded derivatives held for trading	1,835,398	5,108	(4,780)	1,630,679	1,813	(2,162)
Derivatives with subsidiaries held for trading	-	-	-	723,297	16,014	(16,792)
Derivative assets/(liabilities) held for trading	43,095,991	535,306	(524,440)	42,835,377	543,434	(532,017)

14 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	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2012						
Derivatives designated as cash flow hedges						
Interest rate swaps	**97,935**	**2,043**	**(1,094)**	**85,467**	**1,767**	**(1,090)**
Forward foreign exchange	**148**	**-**	**(3)**	**148**	**-**	**(3)**
Interest rate derivatives cleared by central counterparty	**79,039**	**-**	**-**	**79,039**	**-**	**-**
Derivatives designated as cash flow hedges	**177,122**	**2,043**	**(1,097)**	**164,654**	**1,767**	**(1,093)**
Derivatives designated as fair value hedges						
Currency swaps						
Interest rate swaps	**44,031**	**1,576**	**(1,984)**	**35,451**	**1,462**	**(1,707)**
Forward foreign exchange	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate derivatives cleared by central counterparty	**64,209**	**-**	**-**	**64,210**	**-**	**-**
Derivatives designated as fair value hedges	**108,240**	**1,576**	**(1,984)**	**99,661**	**1,462**	**(1,707)**
Derivatives designated as hedges of net investments						
Forward foreign exchange	**17,460**	**180**	**(53)**	**17,460**	**180**	**(53)**
Currency swaps	**-**	**-**	**-**	**-**	**-**	**-**
Derivatives designated as hedges of net investments	**17,460**	**180**	**(53)**	**17,460**	**180**	**(53)**
Derivatives held for risk management	**302,822**	**3,799**	**(3,134)**	**281,775**	**3,409**	**(2,853)**
Year ended 31 December 2011						
Derivatives designated as cash flow hedges						
Interest rate swaps	120,557	2,147	(1,725)	102,640	1,901	(1,113)
Forward foreign exchange	328	3	(1)	328	3	(1)
Exchange traded interest rate swaps	36,264	-	-	36,264	-	-
Derivatives designated as cash flow hedges	157,149	2,150	(1,726)	139,232	1,904	(1,114)
Derivatives designated as fair value hedges						
Interest rate swaps	38,574	1,447	(1,238)	28,092	1,387	(1,677)
Forward foreign exchange	-	-	-	22,115	133	(635)
Interest rate derivatives cleared by central counterparty	35,801	-	-	35,801	-	-
Derivatives designated as fair value hedges	74,375	1,447	(1,238)	86,008	1,520	(2,312)
Derivatives designated as hedges of net investments						
Forward foreign exchange	11,391	61	(388)	12,298	63	(394)
Currency swaps	619	-	(6)	-	-	-
Derivatives designated as hedges of net investment	12,010	61	(394)	12,298	63	(394)
Derivatives held for risk management	243,534	3,658	(3,358)	237,538	3,487	(3,820)

Notes to the financial statements

Assets and liabilities held at fair value

14 Derivative financial instruments (continued)

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

	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
2012							
The Group							
Forecast receivable cash flows	**2,417**	**345**	**333**	**353**	**354**	**350**	**682**
Forecast payable cash flows	**54**	**31**	**18**	**4**	**-**	**1**	**-**
The Bank							
Forecast receivable cash flows	**2,104**	**278**	**275**	**289**	**316**	**313**	**633**
Forecast payable cash flows	**51**	**29**	**18**	**4**	**-**	**-**	**-**
2011							
The Group							
Forecast receivable cash flows	3,818	700	582	597	612	596	731
Forecast payable cash flows	177	108	28	24	9	-	8
The Bank							
Forecast receivable cash flows	3,544	573	500	555	595	591	730
Forecast payable cash flows	166	106	29	23	8	-	-

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 9 years (2011: 9 years), and for the Bank, 9 years (2011: 9 years).

Amounts recognised in net interest income	The Group £m	The Bank £m
Year ended 31 December 2012		
(Losses)/gains on the hedged items attributable to the hedged risk	**(74)**	**36**
Gains/(losses) on the hedging instruments	**114**	**(4)**
Fair value ineffectiveness	**40**	**32**
Cash flow hedging ineffectiveness	**30**	**48**
Year ended 31 December 2011		
Fair value hedging:		
Losses on the hedged items attributable to the hedged risk	(765)	(754)
Gains on the hedging instruments	683	751
Fair value ineffectiveness	(82)	(3)
Cash flow hedging ineffectiveness	8	16
Net investment hedging ineffectiveness	(1)	(1)

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

Gains and losses transferred from the cash flow hedging reserve for the Group in the current year to: net interest income was a £97m gain (2011: £86m gain); interest expense a £571m gain (2011: £732m gain); net trading income a £48m loss (2011: £157m loss) and administration and general expenses a £1m gain (2011: £2m gain); and for the Bank, net interest income was a £14m gain (2011: £22m loss); interest expense a £574m gain (2011: £735m gain); net trading income a £48m loss (2011: £57m loss); and administration and general expenses £nil (2011: £nil).

15 Available for sale investments

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.

	The Group		The Bank	
	2012	2011	2012	2011
	£m	£m	£m	£m
Debt securities and other eligible bills	74,677	63,610	61,554	47,805
Equity securities	456	5,413	199	174
Available for sale investments	75,133	69,023	61,753	47,979

Critical accounting estimates and judgements

Approximately $4.5bn (£2.8bn) 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 2012. Approximately $3.0bn (£1.9bn) of this amount was recognised as part of the acquisition accounting and is included as an available for sale asset on the balance sheet. As discussed in Note 28, Barclays entitlement to these assets is the subject of legal proceedings between the SIPA Trustee for Lehman Brothers Inc. and Barclays. As such, there continues to be significant judgement involved in the valuation of this asset and uncertainty relating to the outcome of ongoing appeals. The Group takes the view that the effective provision of US$1.5bn (£0.9bn) that is reflected in its estimate of fair value is appropriate. The valuation of this asset will be kept under review as legal proceedings progress.

16 Financial liabilities designated at fair value

Accounting for liabilities designated at fair value through profit and loss

In accordance with IAS 39, financial liabilities may be designated at fair value, with gains and losses taken to the income statement within net trading income (Note 5) and net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 14).

	The Group				The Bank			
	2012		2011		2012		2011	
	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	58,169	60,045	66,565	70,787	75,840	78,379	85,319	90,465
Deposits	11,930	13,583	10,755	11,422	9,360	10,247	7,898	8,027
Other financial liabilities	6,687	6,705	8,996	9,561	6,176	6,194	7,852	8,377
Liabilities to customers under investment contracts	1,494	-	1,681	-	-	-	-	-
Financial liabilities designated at fair value	78,280	80,333	87,997	91,770	91,376	94,820	101,069	106,869

The cumulative own credit net loss that has been recognised is £979m at 31 December 2012 (2011: £3,600m gain).

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Assets and liabilities held at fair value

17 Fair value of financial instruments

Accounting for financial assets and liabilities – fair values

The Group applies IAS 39. All financial instruments are initially recognised at fair value on the date of initial 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 amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties.

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.

For valuations that have made use of significant 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 variables is shown on page 170.

17 Fair value of financial instruments (continued)

Comparison of carrying amounts and fair values

The following table summarises the fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet.

The Group	2012 Carrying amount £m	2012 Fair value £m	2011 Carrying amount £m	2011 Fair value £m
Financial assets				
Loans and advances to banks	**40,898**	**40,898**	46,792	46,792
Loans and advances to customers:				
– Home loans	**174,988**	**164,608**	171,272	163,433
– Credit cards, unsecured and other retail lending	**66,414**	**65,357**	64,492	63,482
– Corporate loans	**184,327**	**178,492**	196,170	191,408
Reverse repurchase agreements and other similar secured lending	**176,956**	**176,895**	153,665	153,365
Financial liabilities				
Deposits from banks	**77,010**	**77,023**	91,116	91,137
Customer accounts:				
– Current and demand accounts	**127,819**	**127,819**	116,208	116,208
– Savings accounts	**99,875**	**99,875**	93,160	93,160
– Other time deposits	**158,102**	**158,097**	156,677	156,700
Debt securities in issue	**119,581**	**119,725**	129,736	128,997
Repurchase agreements and other similar secured borrowing	**217,342**	**217,342**	207,292	207,292
Subordinated liabilities	**24,422**	**23,871**	24,870	20,745

The Bank	2012 Carrying amount £m	2012 Fair value £m	2011 Carrying amount £m	2011 Fair value £m
Financial assets				
Loans and advances to banks	**51,175**	**51,175**	52,287	52,287
Loans and advances to customers:				
– Home loans	**143,684**	**134,441**	133,516	125,665
– Credit cards, unsecured and other personal lending	**31,513**	**31,044**	32,821	32,626
– Corporate loans	**299,526**	**293,812**	351,443	347,406
Reverse repurchase agreements and other similar secured lending	**174,284**	**174,223**	161,436	161,136
Financial liabilities				
Deposits from banks	**83,740**	**83,753**	108,816	108,886
Customer accounts:				
– Current and demand accounts	**97,344**	**97,344**	82,242	82,242
– Savings accounts	**88,918**	**88,918**	82,870	82,870
– Other time deposits	**294,864**	**294,836**	289,410	289,422
Debt securities in issue	**85,173**	**86,019**	83,939	83,271
Repurchase agreements and other similar secured borrowing	**187,148**	**187,148**	193,453	193,453
Subordinated liabilities	**22,941**	**22,285**	26,764	21,288

Valuation

The fair value is the amount an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. As a wide range of valuation techniques are available, it may be inappropriate to compare the Barclays fair value information to independent market or other financial institutions. Assumptions changes and different valuation methodologies can have significant impact on fair values which are based on unobservable inputs.

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)
Financial assets
The carrying value of financial assets held at amortised cost (including loans and advances, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the accounting policy noted on page 160.

Loans and advances to banks and customers
The carrying value of variable rate loans is assumed to be their fair value based on frequent repricing. The fair value of the fixed rate loans is determined using discounted cash flows by aggregating for the same or similar products. This approach is used mainly in Retail and Business Banking and Wealth and Investment Management by applying derived market interest rates on expected cash flows. These valuation techniques also consider expected credit losses and changes to behavioural profiles.

For the Investment Bank and Corporate Banking, the fair value is determined by applying a credit spread for the counterparty. Credit spreads are based on regional and industry segments and take the contractual maturity of the loan facilities into consideration. In the absence of counterparty rating, the average of regional and industry segmental credit spreads are applied to the contractual maturity of the loan.

The fair value of asset backed securities and reclassified trading portfolio assets to loans and advances are determined primarily from market quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with similar obligor, broker quotes and other research data.

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 page 160.

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

The fair value for deposits repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits is estimated using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities.

Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using valuation model.

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

Valuation inputs
IFRS 7 *Financial Instruments: Disclosure* requires an entity to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1
Financial instruments 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 on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes liquid government bonds actively traded through an exchange or clearing house, actively traded listed equities and actively exchange-traded derivatives.

Valuation technique using observable inputs – Level 2
Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include financial instruments 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.

This category includes most investment grade and liquid high yield bonds, certain asset backed securities, US agency securities, government bonds, less actively traded listed equities, bank, corporate and municipal obligations, certain OTC derivatives, certain convertible bonds, certificates of deposit, commercial paper, collateralised loan obligations (CLOs), most commodities based derivatives, credit derivatives, certain credit default swaps (CDSs), most fund units, certain loans, foreign exchange spot and forward transactions and certain issued notes.

17 Fair value of financial instruments (continued)

Valuation technique using significant unobservable inputs – Level 3

Financial instruments 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. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

The Level 3 category includes certain corporate debt securities, distressed debt, private equity investments, commercial real estate loans, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities), certain convertible bonds, certain CDS, derivative exposures to monoline insurers, certain fund units, certain asset backed securities, certain issued notes, certain CDOs (synthetic and some cash underlyings), certain CLOs and certain loans.

The following table shows the Group's financial assets and liabilities that are held at fair value analysed by level within the fair value hierarchy.

Financial assets and liabilities held at fair value	Valuation technique using			
The Group	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total £m
As at 31 December 2012				
Trading portfolio assets	**51,614**	**85,930**	**7,486**	**145,030**
Financial assets designated at fair value	**14,405**	**25,705**	**5,951**	**46,061**
Derivative financial assets	**2,864**	**460,139**	**6,143**	**469,146**
Available for sale financial investments	**28,970**	**43,283**	**2,880**	**75,133**
Total assets	**97,853**	**615,057**	**22,460**	**735,370**
Trading portfolio liabilities	**(20,270)**	**(24,522)**	**(2)**	**(44,794)**
Financial liabilities designated at fair value	**(181)**	**(75,866)**	**(2,233)**	**(78,280)**
Derivative financial liabilities	**(2,668)**	**(454,896)**	**(4,904)**	**(462,468)**
Total Liabilities	**(23,119)**	**(555,284)**	**(7,139)**	**(585,542)**
As at 31 December 2011				
Trading portfolio assets	61,530	81,449	9,204	152,183
Financial assets designated at fair value	4,179	24,091	8,679	36,949
Derivative financial assets	2,550	525,147	11,267	538,964
Available for sale financial investments	31,389	34,761	2,873	69,023
Total assets	99,648	665,448	32,023	797,119
Trading portfolio liabilities	(26,155)	(19,726)	(6)	(45,887)
Financial liabilities designated at fair value	(39)	(84,822)	(3,136)	(87,997)
Derivative financial liabilities	(2,263)	(516,954)	(8,581)	(527,798)
Total Liabilities	(28,457)	(621,502)	(11,723)	(661,682)

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)

Financial assets and liabilities held at fair value	Valuation technique using			
The Bank	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total £m
As at 31 December 2012				
Trading portfolio assets	**19,054**	**49,554**	**6,111**	**74,719**
Financial assets designated at fair value	**41**	**78,600**	**3,596**	**82,237**
Derivative financial assets	**4**	**469,938**	**6,187**	**476,129**
Available for sale financial investments:	**20,617**	**39,042**	**2,094**	**61,753**
Total assets	**39,716**	**637,134**	**17,988**	**694,838**
Trading portfolio liabilities	**(12,423)**	**(17,680)**	**(2)**	**(30,105)**
Financial liabilities designated at fair value	**-**	**(89,770)**	**(1,606)**	**(91,376)**
Derivative financial liabilities	**(11)**	**(461,430)**	**(4,880)**	**(466,321)**
Total Liabilities	**(12,434)**	**(568,880)**	**(6,488)**	**(587,802)**
As at 31 December 2011				
Trading portfolio assets	27,998	48,796	8,254	85,048
Financial assets designated at fair value	7	39,936	4,589	44,532
Derivative financial assets	1	535,572	11,346	546,919
Available for sale financial investments	15,738	30,120	2,119	47,977
Total assets	43,744	654,424	26,308	724,476
Trading portfolio liabilities	(13,240)	(15,386)	(6)	(28,632)
Financial liabilities designated at fair value	-	(98,632)	(2,437)	(101,069)
Derivative financial liabilities	(8)	(527,371)	(8,458)	(535,837)
Total Liabilities	(13,248)	(641,389)	(10,901)	(665,538)

Transfers from Level 1 to Level 2 primarily comprised certain government bonds and equity products, as a result of regular observability reassessments.

17 Fair value of financial instruments (continued)

The following table shows the Group's financial assets and liabilities that are held at fair value disaggregated by valuation technique and product type.

Financial assets and liabilities held at fair value by product type	Assets Valuation technique using			Liabilities Valuation technique using		
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)
The Group	£m	£m	£m	£m	£m	£m
As at 31 December 2012						
Commercial real estate loans	-	1	1,798	(1)	-	-
Asset backed products	17	28,755	4,175	(2)	(3,654)	(539)
Other credit products	-	25,582	1,792	-	(28,266)	(1,178)
Derivative exposure to monoline insurers	-	-	592	-	-	-
Non-asset backed debt instruments	66,034	94,471	3,845	(13,207)	(75,787)	(1,687)
Equity products	29,805	7,448	1,242	(9,862)	(10,902)	(1,688)
Private equity	8	26	1,675	-	-	-
Funds and fund-linked products	1,124	2,625	864	(3)	(994)	-
Foreign exchange products	-	29,260	216	-	(30,000)	(246)
Interest rate products	-	385,977	1,275	-	(377,965)	(1,117)
Commodity products	693	20,720	665	(5)	(25,904)	(582)
Other	172	20,192	4,321	(39)	(1,812)	(102)
Total	97,853	615,057	22,460	(23,119)	(555,284)	(7,139)
As at 31 December 2011						
Commercial real estate loans	-	-	2,452	-	-	-
Asset backed products	30	29,995	5,752	-	(5,595)	(1,020)
Other credit products	-	55,347	4,386	-	(57,608)	(3,765)
Derivative exposure to monoline insurers	-	-	1,129	-	-	-
Non-asset backed debt instruments	66,622	84,296	4,213	(15,788)	(77,966)	(2,086)
Equity products	30,673	7,810	1,079	(12,589)	(11,612)	(1,531)
Private equity	-	39	2,827	-	-	-
Funds and fund-linked products	968	3,169	1,290	-	(1,017)	-
Foreign exchange products	-	34,658	457	-	(33,536)	(187)
Interest rate products	-	405,635	2,433	-	(399,254)	(2,090)
Commodity products	857	26,551	773	(4)	(33,120)	(991)
Other	498	17,948	5,232	(76)	(1,794)	(53)
Total	99,648	665,448	32,023	(28,457)	(621,502)	(11,723)

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)

Level 3 classification

The following table shows Level 3 financial assets and liabilities disaggregated by balance sheet classification and product type.

Level 3 financial assets and liabilities by balance sheet classification and product type	Non-derivative assets			Non-derivative liabilities		Derivatives
	Trading portfolio assets	Financial assets designated at fair value	Available for sale investments	Trading portfolio liabilities	Financial liabilities designated at fair value	Net derivative financial instruments[a]
The Group	£m	£m	£m	£m	£m	£m
As at 31 December 2012						
Commercial real estate loans	-	1,798	-	-	-	-
Asset backed products	2,592	335	492	-	-	217
Other credit products	-	18	-	-	(522)	1,118
Derivative exposure to monoline insurers	-	57	-	-	-	535
Non-asset backed debt instruments	3,577	213	52	(2)	(1,669)	(13)
Equity products	141	-	7	-	-	(594)
Private equity	1	1,240	434	-	-	-
Funds and fund-linked products	864	-	-	-	-	-
Foreign exchange products	5	2	3	-	(2)	(38)
Interest rate products	-	1	-	-	(1)	158
Commodity products	-	-	5	-	(39)	117
Other[b]	306	2,287	1,887	-	-	(261)
Total	7,486	5,951	2,880	(2)	(2,233)	1,239
As at 31 December 2011						
Commercial real estate loans	-	2,452	-	-	-	-
Asset backed products	3,306	693	252	(1)	(13)	495
Other credit products	-	196	-	-	(1,007)	1,432
Derivative exposure to monoline insurers	-	-	-	-	-	1,129
Non-asset backed debt instruments	3,953	223	36	(5)	(2,081)	1
Equity products	115	-	15	-	-	(582)
Private equity	-	2,238	589	-	-	-
Funds and fund-linked products	1,258	32	-	-	-	-
Foreign exchange products	6	-	-	-	-	264
Interest rate products	-	3	-	-	-	340
Commodity products	-	-	18	-	(35)	(201)
Other[b]	566	2,842	1,963	-	-	(192)
Total	9,204	8,679	2,873	(6)	(3,136)	2,686

Note

a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2012 totalled £6,143m (2011: £11,267m) and derivative financial liabilities totalled £4,904m (2011: £8,581m).

b Other primarily includes fixed rate loans and receivables resulting from the acquisition of the North American businesses of Lehman Brothers.

17 Fair value of financial instruments (continued)

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 financial 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 financial assets and liabilities	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale investments £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments[a] £m	Total £m
The Group							
As at 1 January 2012	9,204	8,679	2,873	(6)	(3,136)	2,686	20,300
Purchases	3,443	2,972	50	(1)	(8)	434	6,890
Sales	(4,445)	(3,837)	(226)	1	29	(138)	(8,616)
Issues	-	-	-	-	(289)	(354)	(643)
Settlements	(744)	(915)	(57)	1	450	5	(1,260)
Total gains and losses in the period recognised in the income statement							
-trading income	248	(236)	(17)	-	81	(1,438)	(1,362)
-other income	(7)	3	-	-	44	(109)	(69)
Total gains or losses recognised in other comprehensive income	-	-	(19)	-	-	-	(19)
Net transfers	(213)	(715)	276	3	596	153	100
As at 31 December 2012	7,486	5,951	2,880	(2)	(2,233)	1,239	15,321
The Bank							
As at 1 January 2012	8,254	4,589	2,119	(6)	(2,437)	2,888	15,407
Purchases	1,326	2,637	21	(1)	(8)	354	4,329
Sales	(2,564)	(2,207)	(3)	1	23	(138)	(4,888)
Issues	-	-	-	-	(197)	(354)	(551)
Settlements	(636)	(422)	(23)	1	334	(52)	(798)
Total gains and losses in the period recognised in the income statement							
-trading income	53	(333)	(16)	2	69	(1,469)	(1,694)
-other income	-	(1)	(92)	-	(11)	(60)	(164)
Total gains or losses recognised in other comprehensive income	-	-	34	-	-	-	34
Net transfers	(322)	(667)	54	1	621	138	(175)
As at 31 December 2012	6,111	3,596	2,094	(2)	(1,606)	1,307	11,500

The significant movements in the Level 3 positions during the year ended 31 December 2012 are as follows:

- Purchases of £6.9bn primarily comprising £3.6bn in asset backed debt instruments, £1.4bn in commercial real estate loans and £1.0bn in non-asset backed loans;
- Sales of £8.6bn primarily comprising £4.7bn of asset backed debt instruments, £1.3bn of commercial real estate loans and £1.5bn of private equity disposals including the sale of an investment in Archstone, an apartment company, for £0.9bn;
- Settlements of £1.3bn including £0.3bn of asset backed debt instruments and £0.7bn in commercial real estate loans; and
- Net losses on the fair value of Level 3 assets recognised in the income statement totalled £1.4bn (31 December 2011: £0.3bn) primarily due to a reduction in the fair value of monoline and non-monoline credit derivatives.

Note

a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2012 totalled £6,143m (2011: £11,267m) and derivative financial liabilities totalled £4,904m (2011: £8,581m).

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)
Gains and losses on Level 3 financial assets and liabilities

Analysis of movements in level 3 financial assets and liabilities	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale investments £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments[a] £m	Total £m
The Group							
As at 1 January 2011	5,741	10,904	3,290	(101)	(3,637)	2,828	19,025
Purchases	6,863	1,659	74	2	-	420	9,018
Sales	(5,390)	(2,210)	(317)	5	223	(144)	(7,833)
Issues	-	57	-	-	(647)	(389)	(979)
Settlements	(190)	(2,157)	(39)	-	523	60	(1,803)
Total gains and losses in the period recognised in the income statement	-	-	-	-	-	-	-
-trading income	(355)	117	-	2	982	(686)	60
-other income	-	(12)	90	-	150	-	228
Total gains or losses recognised in other comprehensive income	-	-	(26)	-	-	-	(26)
Net Transfers	2,535	321	(199)	86	(730)	597	2,610
As at 31 December 2011	**9,204**	**8,679**	**2,873**	**(6)**	**(3,136)**	**2,686**	**20,300**
The Bank							
As at 1 January 2011	5,769	6,687	2,348	(2)	(2,708)	3,281	15,375
Purchases	5,297	464	2	-	-	401	6,164
Sales	(4,573)	(428)	-	2	71	(175)	(5,103)
Issues	-	-	-	-	(611)	(344)	(955)
Settlements	(104)	(1,065)	(28)	-	428	(67)	(836)
Total gains and losses in the period recognised in the income statement	-	-	-	-	-	-	-
-trading income	(349)	(152)	-	-	1,014	(522)	(9)
-other income	-	23	(3)	-	-	(29)	(9)
Total gains or losses recognised in other comprehensive income	-	-	16	-	-	-	16
Net Transfers	2,214	(940)	(216)	(6)	(631)	343	764
As at 31 December 2011	**8,254**	**4,589**	**2,119**	**(6)**	**(2,437)**	**2,888**	**15,407**

Note
a The derivative financial instruments are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2011 totalled £11,267m and derivative financial liabilities totalled £8,581m.

17 Fair value of financial instruments (continued)

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

Gains and losses reognised during the period on level 3 financial assets and liabilities held	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale investments £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments £m	Total £m
The Group							
Total gains and losses held as at 31 December 2012							
Recognised in the income statement							
-trading income	**(36)**	**(174)**	**(3)**	**(1)**	**33**	**(1,747)**	**(1,928)**
-other income	**(7)**	**6**	**(11)**	**-**	**55**	**(61)**	**(18)**
Total gains or losses recognised in other comprehensive income	**-**	**-**	**67**	**-**	**-**	**-**	**67**
Total	**(43)**	**(168)**	**53**	**(1)**	**88**	**(1,808)**	**(1,879)**
The Bank							
Total gains and losses held as at 31 December 2012							
Recognised in the income statement							
-trading income	**(90)**	**(246)**	**(3)**	**3**	**20**	**(1,617)**	**(1,933)**
-other income	**-**	**(1)**	**(1)**	**-**	**-**	**(91)**	**(93)**
Total gains or losses recognised in other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(90)**	**(247)**	**(4)**	**3**	**20**	**(1,708)**	**(2,026)**

Gains and losses reognised during the period on level 3 financial assets and liabilities held	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale investments £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments £m	Total £m
The Group							
Total gains and losses held as at 31 December 2011							
Recognised in the income statement							
-trading income	(44)	270	-	-	729	(324)	631
-other income	-	118	(54)	-	-	-	64
Total gains or losses recognised in other comprehensive income	-	-	135	-	-	-	135
Total	(44)	388	81	-	729	(324)	830
The Bank							
Total gains and losses held as at 31 December 2011							
Recognised in the income statement							
-trading income	(69)	216	-	-	794	(206)	735
-other income	-	20	(32)	-	-	(31)	(43)
Total gains or losses recognised in other comprehensive income	-	-	3	-	-	-	3
Total	(69)	236	(29)	-	794	(237)	695

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)
Valuation techniques and sensitivity analysis

Current year valuation methodologies were consistent with the prior year unless otherwise noted below. These methodologies are commonly used by market participants.

Sensitivity analysis is performed on products with significant unobservable parameters (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 calculated without reflecting the impact of any diversification in the portfolio.

Sensitivities are dynamically calculated on a monthly basis. The calculation is based on a range, standard deviation or spread data of a reliable reference source or a scenario based on alternative market views alongside the impact of using alternative models. The level of shift or scenarios applied is considered for each product and varied according to the quality of the data and variability of underlying market. Sensitivity to using alternative models is quantified through scenario analysis and proxy approaches. The approach adopted in determining these sensitivities has continued to evolve during the year, in the context of changing market conditions.

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.

Commercial real estate loans
Description: This legacy portfolio includes lending on a range of commercial property types including retail, hotel, office, multi-family and industrial properties.

Valuation: Performing loans are valued using a spread-based approach, with consideration of characteristics such as property type, geographic location, yields, credit quality and property performance reviews. Where there is significant uncertainty regarding loan performance, valuation is based on the underlying collateral, whose value is determined through property-specific information such as third party valuation reports and bids for the underlying properties.

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

Level 3 sensitivity: For performing loans, sensitivity is determined by applying an adjusted spread of 15% for each loan (both up and down). This adjusted spread is derived from loan origination spreads provided by independent market research. For non-performing loans, a plausible worst-case valuation is determined from the history of third-party valuation reports or bids received.

Asset backed products
Description: These are debt and derivative products 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, CLOs and derivatives with cash flows linked to securitisations.

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 cash flow models that calculate fair value based on loss projections, prepayment, recovery and discount rates.

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 external vendor pricing dispersion or bid offer ranges, defined at position level. Half of the observed pricing dispersion or bid offer range is multiplied by the market value of the position to calculate the valuation sensitivity. Where there is no observable dispersion of bid offer data, price movements on appropriate indices are used. Sensitivity is based on the average of the largest upward and downward price movement in the preceding 12 month period.

17 Fair value of financial instruments (continued)

Other credit products

Description: These products are linked to the credit spread of a referenced entity, index or basket of referenced entities. This category includes synthetic CDOs, single name and index CDS 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 bond spreads from observable issuances of the same issuer or other similar entities as a proxy. Synthetic CDOs are valued using a model that calculates fair value based on credit spreads, recovery rates, correlations and interest rates and is calibrated daily. The model is calibrated to the index tranche market.

Observability: CDS contracts referencing entities that are not actively traded are considered unobservable. The correlation input to bespoke CDO valuation is considered unobservable as it is proxied from the observable index tranche market.

L3 Sensitivity: The sensitivity of valuations of the illiquid CDS portfolio is determined by applying a shift to each underlying reference asset. The shift is based upon the average bid offer spreads observed in the market for similar CDS.

Bespoke Collateralised Synthetic Obligation (CSO) sensitivity is calculated using correlation levels derived from the range of contributors to a consensus bespoke service.

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: The value of the CDS is derived from the value of the cash instrument that it protects. A valuation adjustment is then applied to reflect the counterparty credit risk associated with the relevant monoline. This adjustment is calculated using an assessment of the likely recovery of the protected cash security, which is derived from a scenario-based calculation of the mark-to-market of the instrument using an appropriate valuation model; and the probability of default and loss given default of the monoline counterparty, as estimated from independent fundamental credit analysis.

Observability: Due to the counterparty credit risk associated with these insurers, derivative exposure to monoline counterparty insurers is generally considered unobservable.

Level 3 sensitivity: Sensitivity is measured by stressing inputs to the counterparty valuation adjustment including our expected exposures and the probability of default of the monoline derivative counterparty. The modelled expected exposures are stressed by shifting the recovery rate assumptions on the underlying protected assets. The probability of default of the monoline derivative counterparty is stressed by shifting the internal default curve.

Non-asset backed debt instruments

Description: These are government bonds, US agency bonds, corporate bonds, commercial paper, certificates of deposit, convertible bonds, notes and other non-asset backed bonds. Within this population, valuation inputs are unobservable for certain convertible bonds and corporate 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 government bonds, US agency bonds, corporate bonds, commercial paper and certificates of deposit 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).

Convertible bonds are valued using prices observed through broker sources, market data services and trading activity. Where reliable external sources are not available, fair value is determined using a spread to the equity conversion value or the value of the bond without the additional equity conversion. The spread level is determined with reference to similar proxy assets.

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. Any unobservable inputs generally have insignificant impact on the overall valuation.

Observability: Where an observable market price is not available, an instrument is considered unobservable.

Level 3 sensitivity: The sensitivity for the corporate bonds portfolio is determined by applying a shift to each underlying position driven by average bid offer spreads observed in the market for similar bonds.

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)

Equity products

Description: This category includes listed equities, exchange traded equity derivatives, OTC equity derivatives, preference shares and contracts for difference.

Valuation: OTC equity derivatives valuations are determined using industry standard models. The models calculate fair value based on input parameters such as 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 instrument.

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

Private equity

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 performed at least bi-annually, with the portfolio reviewed on a monthly basis for material events that might impact upon fair value.

Observability: Unobservable inputs include earnings estimates, multiples of comparative companies, marketability discounts and discount rates. Model inputs are based on market conditions at the reporting date. 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.

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.

Funds and fund-linked products

Description: This category includes holdings in hedge funds, funds of funds, and fund derivatives. Fund derivatives are derivatives whose underlyings include mutual funds, hedge funds, fund indices and multi-asset portfolios. They are valued using underlying fund prices, yield curves and other available market information.

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 maybe 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 more than three months old.

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.

Foreign exchange products

Description: These products are derivatives linked to the foreign exchange market. This category includes FX forward contracts, FX swaps and FX options. Exotic derivatives are valued using industry standard and bespoke models.

Valuation: 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 and long dated forward and volatilities are unobservable.

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

Interest rate products

Description: These are products linked to interest rates or inflation indices. This category includes interest rate and inflation swaps, swaptions, caps, floors, inflation options, balance guaranteed swaps and other exotic interest rate derivatives. Interest rate products are valued using standard discounted cash flow techniques.

17 Fair value of financial instruments (continued)

Valuation: Interest rate derivative cash flows are valued using interest rate yield curves whereby observable market data is used to construct the term structure of forward rates. This is then used to project and discount future cash flows based on the parameters of the trade. Instruments with optionality are valued using volatilities implied from market observable inputs. Exotic interest rate derivatives are valued using industry standard and bespoke models based on observable market parameters which are determined separately for each parameter and underlying instrument. 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.

Observability: Inflation forward curves and interest rate yield curves are observable up to liquid maturities after which they are deemed unobservable.

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

Commodity products

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

Valuation: The valuations of certain 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 tenor correlation. Unobservable inputs are set with reference to similar observable products or by applying extrapolation techniques from the observable market.

Observability: Within this population, certain forward curves and volatilities for longer dated exposures are unobservable.

Level 3 sensitivity: Sensitivity is determined primarily by measuring historical variability over two years. The estimate is calculated using data for short dated parameter curves to generate best and worst case scenarios. 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.

Other

Description: This category is largely made up of fixed rate loans, which are valued using models that discount expected future cash flows. 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 28 Legal Proceedings.

Valuation: Fixed rate loans are valued using models that calculate fair value based on observable interest rates and unobservable credit spreads. Unobservable credit spreads are modelled according to issuer credit quality. Derived levels are validated against any origination activity that occurs.

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)

Level 3 sensitivity:

The sensitivity for fixed rate loans is calculated by applying a 25% shift in borrower credit spreads.

No stress has been applied to the receivables relating to the Lehman acquisition (Note 28). 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.

Sensitivity analysis of valuations using unobservable inputs

	Fair value		Favourable changes		Unfavourable changes	
The Group	Total assets	Total liabilities	Income Statement	Equity	Income Statement	Equity
Product type	£m	£m	£m	£m	£m	£m
As at 31 December 2012						
Commercial real estate loans	**1,798**	**-**	**87**	**-**	**(80)**	**-**
Asset backed products	**4,175**	**(539)**	**299**	**7**	**(210)**	**(7)**
Other credit products	**1,792**	**(1,178)**	**191**	**-**	**(191)**	**-**
Derivative exposure to monoline insurers	**592**	**-**	**164**	**-**	**(268)**	**-**
Non-asset backed debt instruments	**3,845**	**(1,687)**	**32**	**12**	**(26)**	**(12)**
Equity products	**1,242**	**(1,688)**	**220**	**3**	**(214)**	**(3)**
Private equity	**1,675**	**-**	**257**	**74**	**(225)**	**(71)**
Funds and fund-linked products	**864**	**-**	**112**	**-**	**(112)**	**-**
Foreign exchange products	**216**	**(246)**	**46**	**-**	**(46)**	**-**
Interest rate products	**1,275**	**(1,117)**	**108**	**-**	**(108)**	**-**
Commodity products	**665**	**(582)**	**68**	**-**	**(68)**	**-**
Other	**4,321**	**(102)**	**67**	**-**	**(70)**	**-**
Total	**22,460**	**(7,139)**	**1,651**	**96**	**(1,618)**	**(93)**
As at 31 December 2011						
Commercial real estate loans	2,452	-	102	-	(118)	-
Asset backed products	5,752	(1,020)	488	2	(388)	(2)
Other credit products	4,386	(3,765)	167	-	(167)	-
Derivative exposure to monoline insurers	1,129	-	-	-	(133)	-
Non-asset backed debt instruments	4,213	(2,086)	24	-	(22)	-
Equity products	1,079	(1,531)	169	11	(169)	(15)
Private equity	2,827	-	375	81	(364)	(82)
Funds and fund-linked products	1,290	-	174	-	(174)	-
Foreign exchange products	457	(187)	57	-	(57)	-
Interest rate products	2,433	(2,090)	60	-	(60)	-
Commodity products	773	(991)	116	-	(123)	-
Other	5,232	(53)	196	-	(196)	-
Total	32,023	(11,723)	1,928	94	(1,971)	(99)

17 Fair value of financial instruments (continued)

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 £1.7bn (2011: £2.0bn) or to decrease fair values by up to £1.7bn (2011: £2.1bn) with substantially all the potential effect impacting profit and loss rather than equity.

Discounting approaches for derivative instruments

During 2011, in line with market practice, the methodology for valuing certain collateralised interest rate products, principally in the Fixed Income Rates business, was amended to reflect the impact of "cheapest to deliver" collateral on discounting curves, where counterparty CSA (Credit Support Annex) agreements specify the right of the counterparty posting collateral to choose the currency of collateral posted. During 2012, the valuation of collateralised derivatives in other business areas was updated to reflect CSA aware discounting. The December 2012 impact of this transition was not material to the overall valuation.

Additionally, during 2012, a fair value adjustment was applied to account for the impact of incorporating the cost of funding into the valuation of uncollateralised derivatives. This was driven by the impact of discounting future expected uncollateralised cash flows to reflect the cost of funding, taking into account observed traded levels on uncollateralised derivatives and other relevant factors.

The Group continues to monitor market practices and activity to ensure the approach to discounting in derivative valuation remains appropriate.

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 discussions 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' own fair value estimates.

Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described below:

Bid-offer valuation adjustments

For assets and liabilities where the firm is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the firm 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), the mid price is used, since the bid-offer spread does not represent a transaction cost.

Uncertainty adjustments

Market data input for exotic derivatives may not have a directly observable bid-offer spread. In such instances, an uncertainty 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.

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 £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 is monitored regularly via scenario analysis and has been found to be immaterial.

Notes to the financial statements
Assets and liabilities held at fair value

17 Fair value of financial instruments (continued)
Model valuation adjustments
Valuation models are reviewed under the firm's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependant on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

Own credit adjustments
The carrying amount of issued notes that are designated under the IAS 39 fair value option is adjusted to reflect the effect of changes in own credit spreads. The resulting gain or loss is recognised in the income statement. For funded instruments such as issued notes, mid-level credit spreads on Barclays issued bonds are the basis for this adjustment.

At 31 December 2012, the own credit adjustment arose from the fair valuation of Barclays financial liabilities designated at fair value. Barclays credit spreads tightened during 2012, leading to a charge of £4,579m (2011: gain of £2,708m) from the fair value of changes primarily in own credit itself but also reflecting the effects of foreign exchange rates, time decay and trade activity.

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

As at 31 December:	2012 £m	2011 £m
Bid-offer valuation adjustments	**(452)**	(603)
Uncertainty adjustments	**(294)**	(313)
Derivative credit valuation adjustments:		
- Monolines	**(235)**	(403)
- Other derivative credit valuation adjustments	**(693)**	(958)
Derivative debit valuation adjustments	**442**	774

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:

	The Group		The Bank	
	2012 £m	2011 £m	2012 £m	2011 £m
As at 1 January	**117**	137	**79**	99
Additions	**78**	93	**42**	43
Amortisation and releases	**(47)**	(113)	**(29)**	(63)
As at 31 December	**148**	117	**92**	79

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.

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 in Note 17.

Governance over the valuation process is the responsibility of the Valuation Committee. This Committee meets monthly and is responsible for overseeing valuation and fair value adjustment policy within Corporate and Investment Banking and this is the forum to which valuation issues are escalated. The Valuation Committee delegates more detailed review to the following five sub-committees: Independent Valuations, Legacy and Other Assets, Litigation Risk, Models and Governance.

17 Fair value of financial instruments (continued)

The Independent Valuations Sub-committee reviews the results of the independent price verification and fair value adjustments process on a monthly basis. This includes, but is not limited to, reviewing fair value adjustments and methodologies, independent price verification results, limits and valuation uncertainty. The Legacy and Other Assets Sub-committee is responsible for overseeing the valuation and measurement issues arising in legacy assets, certain AFS positions and other assets as delegated by the Valuation Committee. The Litigation Risk Sub-committee is responsible for overseeing the valuation and measurement issues arising from legal risks within Barclays Corporate and Investment Banking.

The Models Sub-committee is responsible for overseeing policies and controls related to the use of valuation models. This includes but is not limited to review of global model risk reports, the trade approval process and model validation, model-related fair value adjustments, and independent price verification variances or collateral disputes relating to model usage.

The Governance Sub-committee is responsible for overseeing the governance of valuation processes, policies and procedures. This Sub-committee monitors the development of the Valuation control framework, completeness of balance sheet oversight and appropriate representation of Senior Management at the Valuation Committee and each of the above referenced Sub-committees. Regulatory and accounting issues related to fair value are assessed by the Governance Sub-committee.

Critical accounting estimates and judgements

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

Notes to the financial statements
Financial instruments held at amortised cost

Financial instruments held at amortised cost

The notes in this section focus on assets that are held at amortised cost arising from the Group's retail and wholesale lending including loans and advances, finance leases, repurchase and reverse repurchase agreements and similar secured lending and borrowing. Detail regarding the Group's capital and liquidity position can be found on pages 66 to 95.

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.

18 Loans and advances to banks and customers

As at 31 December	The Group 2012 £m	2011 £m	The Bank 2012 £m	2011 £m
Gross loans and advances to banks	**40,939**	46,837	**51,216**	52,332
Less: allowance for impairment	**(41)**	(45)	**(41)**	(45)
Loans and advances to banks	**40,898**	46,792	**51,175**	52,287
Gross loans and advances to customers	**435,364**	442,486	**481,524**	525,154
Less: allowance for impairment	**(9,635)**	(10,552)	**(6,801)**	(7,374)
Loans and advances to customers	**425,729**	431,934	**474,723**	517,780

Further analysis on the Group's loans and advances to banks and customers and impairment allowances are included on pages 43 to 46.

19 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.

19 Finance leases (continued)

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.

Investment in finance lease receivables	2012				2011			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Un-guaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Un-guaranteed residual values £m
The Group								
Not more than one year	**2,363**	**(329)**	**2,034**	**80**	2,977	(437)	2,540	71
Over one year but not more than five years	**5,055**	**(749)**	**4,306**	**105**	6,333	(934)	5,399	122
Over five years	**617**	**(120)**	**497**	**318**	1,379	(320)	1,059	395
Total	**8,035**	**(1,198)**	**6,837**	**503**	10,689	(1,691)	8,998	588
The Bank								
Not more than one year	**21**	**-**	**21**	**-**	18	-	18	-
Over one year but not more than five years	**369**	**(3)**	**366**	**-**	181	(10)	171	-
Over five years	**30**	**(24)**	**6**	**-**	310	(29)	281	-
Total	**420**	**(27)**	**393**	**-**	509	(39)	470	-

The impairment allowance for uncollectable finance lease receivables amounted to £140m at 31 December 2012 (2011: £290m).

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 (Note 25).

As at 31 December 2012, the total future minimum payments under finance leases were £35m (2011: £64m), of which £5m (2011: £10m) was due within one year and the total future minimum payments under finance leases for the Bank were £2m (2011: £2m). As at 31 December 2012, the carrying amount of assets held under finance leases was £22m (2011: £28m).

20 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 £7,652m to £5,188m primarily as a result of sales and paydowns of the underlying securities offset by increases due to the reversal of the discount on reclassification and FX movements.

Sales of securities from the 16 December 2008 reclassification totalled £151m (2011: £91m) and sales of securities from the 25 November 2009 reclassification totalled £1,316m (2011: £482m).

Notes to the financial statements
Financial instruments held at amortised cost

20 Reclassification of financial assets held for trading (continued)
The following table provides a summary of the assets reclassified from held for trading to loans and receivables.

	2012		2011	
	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	**5,140**	**4,996**	7,434	7,045
Reclassification 16 December 2008	**48**	**50**	218	217
Total financial assets reclassified to loans and receivables	**5,188**	**5,046**	7,652	7,262

If the reclassifications had not been made, the Group's income statement for 2012 would have included a net gain on the reclassified trading assets of £247m (2011: loss of £152m).

21 Reverse repurchase and repurchase agreements including other similar lending and borrowing
Reverse repurchase agreements (and stock borrowing or similar transactions) 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.

As at 31 December	The Group		The Bank	
	2012 £m	2011 £m	2012 £m	2011 £m
Assets				
Banks	**64,616**	64,470	**40,548**	43,463
Customers	**112,340**	89,195	**133,736**	117,973
Reverse repurchase agreements and other similar secured lending	**176,956**	153,665	**174,284**	161,436
Liabilities				
Banks	**(87,815)**	(69,544)	**(48,535)**	(46,430)
Customers	**(129,527)**	(137,748)	**(138,613)**	(147,023)
Repurchase agreements and other similar secured borrowing	**(217,342)**	(207,292)	**(187,148)**	(193,453)

Notes to the financial statements
Non-current assets and other investments

Non-current assets and other investments

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

22 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. Following a review in 2011, the depreciation rates for certain categories of fixed assets were revised to reflect their currently expected useful lives. The impact of the change was not material. 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[a]	6-10%
Equipment installed in freehold and leasehold property[a]	6-10%
Computers and similar equipment	17-33%
Fixtures and fittings and other equipment	9-20%

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 remeasurement are included in the income statement.

Note
a Where 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.

Notes to the financial statements

Non-current assets and other investments

22 Property, plant and equipment (continued)

	The Group					The Bank			
	Investment property £m	Property £m	Equipment £m	Leased assets £m	Total £m	Investment property £m	Property £m	Equipment £m	Total £m
Cost									
As at 1st January 2012	**2,928**	**3,959**	**4,755**	**20**	**11,662**	**4**	**2,056**	**2,169**	**4,229**
Acquisitions and disposals of subsidiaries	**(16)**	**6**	**1**	**-**	**(9)**	**-**	**2**		**2**
Additions and disposals	**(191)**	**177**	**211**	**(6)**	**191**	**(4)**	**96**	**65**	**157**
Change in fair value of investment properties	**23**	**-**	**-**	**-**	**23**	**-**	**-**	**-**	**-**
Exchange and other movements[a]	**(1,058)**	**(112)**	**(173)**	**-**	**(1,343)**	**-**	**(18)**	**(20)**	**(38)**
As at 31st December 2012	**1,686**	**4,030**	**4,794**	**14**	**10,524**	**-**	**2,136**	**2,214**	**4,350**
Accumulated depreciation and impairment									
As at 1st January 2012	**-**	**(1,245)**	**(3,244)**	**(7)**	**(4,496)**	**-**	**(839)**	**(1,453)**	**(2,292)**
Depreciation charge	**-**	**(212)**	**(456)**	**(1)**	**(669)**	**-**	**(118)**	**(214)**	**(332)**
Disposals	**-**	**18**	**204**	**2**	**224**	**-**	**12**	**148**	**160**
Exchange and other movements	**-**	**25**	**146**	**-**	**171**	**-**	**5**	**15**	**20**
As at 31st December 2012	**-**	**(1,414)**	**(3,350)**	**(6)**	**(4,770)**	**-**	**(940)**	**(1,504)**	**(2,444)**
Net book value	**1,686**	**2,616**	**1,444**	**8**	**5,754**	**-**	**1,196**	**710**	**1,906**
Cost									
As at 1st January 2011	1,570	4,229	4,749	75	10,623	4	2,115	2,064	4,183
Acquisitions and disposals of subsidiaries	1,201	-	-	-	1,201	-	-	-	-
Additions and disposals	277	(183)	256	1	351	-	(47)	129	82
Change in fair value of investment properties	(138)	-	-	-	(138)	-	-	-	-
Exchange and other movements	18	(87)	(250)	(56)	(375)	-	(12)	(24)	(36)
As at 31st December 2011	2,928	3,959	4,755	20	11,662	4	2,056	2,169	4,229
Accumulated depreciation and impairment									
As at 1st January 2011	-	(1,326)	(3,133)	(24)	(4,483)	-	(935)	(1,370)	(2,305)
Depreciation charge	-	(206)	(463)	(4)	(673)	-	(110)	(204)	(314)
Disposals	-	275	175	4	454	-	205	108	313
Exchange and other movements	-	12	177	17	206	-	1	13	14
As at 31st December 2011	-	(1,245)	(3,244)	(7)	(4,496)	-	(839)	(1,453)	(2,292)
Net book value	2,928	2,714	1,511	13	7,166	4	1,217	716	1,937

Property rentals of £105m (2011: £94m) and £52m (2011: £61m) have been included in net investment income and other income respectively.

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.

Note

a Of the other movement, £1.1bn relates to a transfer of Baubecon, an investment property, to other assets held for sale in June. Subsequently in July, Baubecon was sold.

23 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 to which the goodwill relates, or the cash generating unit'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, 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 indicators that impairment may have occurred.

Notes to the financial statements
Non-current assets and other investments

23 Goodwill and intangible assets (continued)

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
The Group								
Cost								
As at 1 January 2012	6,697	1,437	328	287	166	1,724	444	11,083
Additions and disposals	29	446	115	(21)	(1)	19	34	621
Exchange and other movements	(141)	(39)	35	(23)	(16)	(105)	(2)	(291)
As at 31 December 2012	6,585	1,844	478	243	149	1,638	476	11,413
Accumulated amortisation and impairment								
As at 1 January 2012	(1,392)	(694)	(114)	(114)	(106)	(615)	(202)	(3,237)
Disposals	-	32	5	21	1	1	5	65
Amortisation charge	-	(162)	(52)	(11)	(18)	(152)	(40)	(435)
Impairment charge	-	(8)	-	-	-	-	(2)	(10)
Exchange and other movements	13	23	3	8	12	49	11	119
As at 31 December 2012	(1,379)	(809)	(158)	(96)	(111)	(717)	(228)	(3,498)
Net book value	5,206	1,035	320	147	38	921	248	7,915
The Bank								
Cost								
As at 1 January 2012	4,277	989	195	6	-	107	124	5,698
Additions and disposals	-	392	(5)	-	-	-	(3)	384
Exchange and other movements	(1)	(8)	(13)	-	-	-	4	(18)
As at 31 December 2012	4,276	1,373	177	6	-	107	125	6,064
Accumulated amortisation and impairment								
As at 1 January 2012	(816)	(426)	(48)	(4)	-	(38)	(33)	(1,365)
Disposals	-	28	-	-	-	-	2	30
Amortisation charge	-	(124)	(14)	-	-	(20)	(12)	(170)
Impairment charge	-	(2)	-	-	-	-	(1)	(3)
Exchange and other movements	(1)	4	3	-	-	-	2	8
As at 31 December 2012	(817)	(520)	(59)	(4)	-	(58)	(42)	(1,500)
Net book value	3,459	853	118	2	-	49	83	4,564

23 Goodwill and intangible assets (continued)

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
The Group								
Cost								
As at 1 January 2011	7,259	1,091	234	347	202	1,686	473	11,292
Additions and disposals	(210)	375	98	(1)	-	144	(19)	387
Exchange and other movements	(352)	(29)	(4)	(59)	(36)	(106)	(10)	(596)
As at 31 December 2011	6,697	1,437	328	287	166	1,724	444	11,083
Accumulated amortisation and impairment								
As at 1 January 2011	(1,040)	(552)	(86)	(121)	(109)	(493)	(194)	(2,595)
Disposals	210	2	5	-	-	-	23	240
Amortisation charge	-	(157)	(35)	(13)	(18)	(158)	(38)	(419)
Impairment charge	(597)	(4)	-	-	-	-	-	(601)
Exchange and other movements	35	17	2	20	21	36	7	138
As at 31 December 2011	(1,392)	(694)	(114)	(114)	(106)	(615)	(202)	(3,237)
Net book value	5,305	743	214	173	60	1,109	242	7,846
The Bank								
Cost								
As at 1 January 2011	4,279	707	118	7	-	16	117	5,244
Additions and disposals	-	295	80	-	-	91	9	475
Exchange and other movements	(2)	(13)	(3)	(1)	-	-	(2)	(21)
As at 31 December 2011	4,277	989	195	6	-	107	124	5,698
Accumulated amortisation and impairment								
As at 1 January 2011	(727)	(339)	(34)	(4)	-	(8)	(22)	(1,134)
Disposals	-	1	-	-	-	-	-	1
Amortisation charge	-	(96)	(15)	-	-	(30)	(12)	(153)
Impairment charge	(89)	(4)	-	-	-	-	-	(93)
Exchange and other movements	-	12	1	-	-	-	1	14
As at 31 December 2011	(816)	(426)	(48)	(4)	-	(38)	(33)	(1,365)
Net book value	3,461	563	147	2	-	69	91	4,333

Notes to the financial statements
Non-current assets and other investments

23 Goodwill and intangible assets (continued)
Goodwill
Goodwill is allocated to business operations according to business segments as follows:

	The Group		The Bank	
	2012 £m	2011 £m	2012 £m	2011 £m
UKRBB	3,144	3,145	3,130	3,130
RBB Europe	62	64	62	64
RBB Africa[a]	863	947	-	-
Barclaycard	514	505	172	172
Investment Bank	93	102	-	-
Corporate Banking[a]	139	151	-	-
Wealth and Investment Management	391	391	95	95
Total net book value of goodwill	**5,206**	5,305	**3,459**	3,461

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 (CGUs) and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business 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 require 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 estimation of future cash flows and fair values less costs to sell, also requires the preparation of cash flow forecasts and fair values for assets that may not be regularly bought and sold. The most significant amounts of intangible assets relate to Absa and Lehman Brothers North American businesses.

Impairment testing of goodwill

Total impairment charges of £nil have been recognised during the year. Impairment charges of £597m recognised in 2011 related to the goodwill held in FirstPlus and Spain which was not supportable based on value in use calculations.

Key assumptions
The key assumptions used for impairment testing are set out below for each significant goodwill balance. Other goodwill of £1,247m (2011: £1,264m) was allocated to multiple CGUs which are not considered individually significant.

UKRBB
At 31 December 2012, goodwill relating to Woolwich was £3,130m (2011: £3,130m) of the total UKRBB balance. The carrying value of the CGU is determined using an allocation of total Group shareholder funds excluding goodwill based on the CGUs share of risk weighted assets before goodwill balances are added back. The recoverable amount of Woolwich 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% (2011: 3%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 12% (2011: 13%). Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by £9,334m (2011: £8,683m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £1,637m (2011: £1,399m) and £1,115m (2011: £939m) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £1,767m (2011: £1,538m).

Africa RBB
At 31 December 2012, goodwill relating to Absa RBB was £829m (2011: £911m) of the total Africa RBB balance. The carrying value of the CGU has been determined by using net asset value. The recoverable amount of the Absa Group 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% (2011: 6%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 13% (2011: 14%). The recoverable amount calculated based on value in use exceeded the carrying amount including goodwill by £3,133m (2011: £4,746m). A one percentage point change in the discount rate or the terminal growth rate would increase or decrease the recoverable amount by £813m (2011: £948m) and £623m (2011: £702m) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £643m (2011: £842m).

Note
a Certain corporate banking activities in Africa, previously reported under Africa RBB are now included within Corporate Banking to align Africa to the reporting approach for the UK and Europe, 2011 balances have been restated.

24 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 recognises 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 2012 were £4m (2011: £14m).

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 £622m (2011: £659m) have been included in administration and general expenses.

The future minimum lease payments by The Group under non-cancellable operating leases are as follows:

	The Group				The Bank			
	2012		2011		2012		2011	
	Property	Equipment	Property	Equipment	Property	Equipment	Property	Equipment
	£m	£m	£m	£m	£m	£m	£m	£m
Not more than one year	**695**	**13**	585	12	**277**	**3**	266	1
Over one year but not more than five years	**1,290**	**3**	1,673	2	**828**	**3**	857	1
Over five years	**2,768**	**-**	2,830	-	**1,402**	**-**	1,466	-
Total	**4,753**	**16**	5,088	14	**2,507**	**6**	2,589	2

The total of future minimum sublease payments to be received under non-cancellable subleases at the 31 December 2012 were £22m (2011: £121m) for The Group and £16m (2011: £114m) for the Bank.

Notes to the financial statements
Accruals, provisions, legal proceedings and contingent liabilities

Accruals, provisions, legal proceedings and contingent liabilities

The notes included in this section focus on the Group's accruals, provisions and contingent liabilities. 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.

25 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.

	The Group		The Bank	
	2012	2011	2012	2011
	£m	£m	£m	£m
Accruals and deferred income	4,806	4,959	2,313	2,446
Other creditors	4,702	5,171	12,681	13,023
Obligations under finance leases	35	64	2	2
Insurance contract liabilities including unit-linked liabilities	2,689	2,386	-	-
Accruals, deferred income and other liabilities	12,232	12,580	14,996	15,471

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 £126m (2011: £118m). 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 £102bn (2011: £104bn) or £79bn (2011: £82bn) after reinsurance. Of this insured risk £87bn (2011: £89bn) or £67bn (2011: £69bn) 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 (2011: £8m).

26 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, i.e., 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 re-structuring £m	Undrawn contractually committed facilities and guarantees provided £m	Payment Protection Insurance redress £m	Interest Rate Hedging Product Redress £m	Litigation £m	Sundry provisions £m	Total £m
The Group								
As at 1 January 2012	**116**	**216**	**230**	**565**	**-**	**140**	**262**	**1,529**
Additions	**24**	**74**	**124**	**1,600**	**850**	**105**	**401**	**3,178**
Amounts utilised	**(20)**	**(136)**	**(5)**	**(1,179)**	**(36)**	**(35)**	**(66)**	**(1,477)**
Unused amounts reversed	**(15)**	**(73)**	**(129)**	**-**	**-**	**(11)**	**(160)**	**(388)**
Exchange and other movements	**(1)**	**(10)**	**(61)**	**-**	**-**	**1**	**(5)**	**(76)**
As at 31 December 2012	**104**	**71**	**159**	**986**	**814**	**200**	**432**	**2,766**
The Bank								
As at 1 January 2012	**110**	**195**	**202**	**225**	**-**	**85**	**122**	**939**
Additions	**24**	**65**	**94**	**1,600**	**850**	**81**	**279**	**2,993**
Amounts utilised	**(27)**	**(120)**	**(6)**	**(1,142)**	**(36)**	**(9)**	**85**	**(1,255)**
Unused amounts reversed	**(14)**	**(72)**	**(90)**	**-**	**-**	**(7)**	**(20)**	**(203)**
Exchange and other movements	**(1)**	**(8)**	**(62)**	**-**	**-**	**5**	**(3)**	**(69)**
As at 31 December 2012	**92**	**60**	**138**	**683**	**814**	**155**	**463**	**2,405**
The Group								
As at 1 January 2011	74	177	229	-	-	151	316	947
Additions	71	330	111	1,000	-	176	36	1,724
Amounts utilised	(31)	(257)	(2)	(435)	-	(104)	(64)	(893)
Unused amounts reversed	-	(31)	(109)	-	-	(73)	(13)	(226)
Exchange and other movements	2	(3)	1	-	-	(10)	(13)	(23)
As at 31 December 2011	116	216	230	565	-	140	262	1,529
The Bank								
As at 1 January 2011	68	166	184	-	-	116	117	651
Additions	71	199	83	580	-	135	94	1,162
Amounts utilised	(30)	(140)	(1)	(355)	-	(97)	(41)	(664)
Unused amounts reversed	(1)	(29)	(66)	-	-	(62)	(47)	(205)
Exchange and other movements	2	(1)	2	-	-	(7)	(1)	(5)
As at 31 December 2011	110	195	202	225	-	85	122	939

Provisions expected to be recovered or settled within no more than 12 months after 31 December 2012 for the Group were £1,700m (2011: £1,260m) and for the Bank were £1,348m (2011: £694m).

Notes to the financial statements
Accruals, provisions, legal proceedings and contingent liabilities

26 Provisions (continued)
Critical accounting estimates and judgements

Payment Protection Insurance Redress

Following the conclusion of the 2011 judicial review, a provision for PPI redress of £1.0bn was raised in May 2011 based on FSA guidelines and historic industry experience in resolving similar claims. Subsequently, further provisions of £300m were raised in March 2012, £700m in September 2012 and £600m in December 2012, bringing the total provision for PPI redress to £2.6bn. As at 31 December 2012 £1.6bn of the provision has been utilised, including gesture of goodwill payments to customers with accrued claims at the conclusion of the judicial review, leaving a residual provision of £1.0bn.

As of 31 December 2012, 1.1m customer initiated claims[a] have been received and processed. The volume of claims received has declined since the peak in May 2012, although the rate of decline has been lower than previously expected.

In addition to customer initiated claims, in August 2012, in accordance with regulatory standards, Barclays commenced proactive mailing of the holders of approximately 750,000 policies. Of this population approximately 100,000 have been mailed as at 31 December and it is anticipated that the remainder will be completed by June 2013.

To date Barclays has upheld on average 39% of claims received, excluding payment of gestures of goodwill and reflecting a high proportion of claims for which no PPI policy exists. The average redress per valid claim to date is £2,750, comprising, where applicable, the refund of premium, compound interest charged and interest of 8%.

The current provision is calculated based on a number of key assumptions which continue to involve significant management judgement:

- Customer initiated claim volumes - claims received not yet processed and an estimate of future claims initiated by customers where the volume is anticipated to continue 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

The provision also includes an estimate of The Group's claims handling costs and those costs associated with claims that are subsequently referred to the Financial Ombudsman Service.

These assumptions remain subjective, in particular the uncertainty associated with future claims levels. Therefore, it is possible that the eventual outcome may materially differ from current estimates, resulting in an increase or decrease to the required provision. The following table details, by key assumption, actual data through to 31 December 2012, forecast assumptions used in the provision calculation and sensitivity analysis illustrating the impact on the provision if the future expected assumptions prove too high or too low:

Assumption	Cumulative actual to 31 December 2012	Future Expected	Sensitivity Analysis increase/decrease in provision
Customer initiated claims[a]	1,100k	450k	50k = £44m
Proactive mailing	100k	650k	
Response rate to proactive mailing	27%	29%	1% = £9m
Average uphold rate per claim[b]	39%	53%	1% = £11m
Average redress per valid claim[b]	£2,750	£2,000	£100 = £41m

Interest Rate Hedging Product Redress

On 29 June 2012, the FSA announced that it had reached agreement with a number of UK banks, including Barclays, in relation to a review and redress exercise to be carried out in respect of interest rate hedging products sold to small and medium sized enterprises. During the second half of 2012, Barclays completed a pilot review of a sample of individual cases. On 31 January 2013, the FSA issued a report on the findings of the pilot, along with those conducted by a number of other banks. The report included a number of changes and clarifications to the requirements under which the main review and redress exercise should be conducted. Barclays has agreed to conduct the exercise in line with the approach set out in this report and will commence shortly. Our current analysis suggests that there are approximately 4,000 private or retail classified customers to which interest rate hedging products were sold within the relevant timeframe, of which approximately 3,000 are likely to be categorised as non-sophisticated under the terms of the agreement.

As at 30 June 2012, a provision of £450m was recognised, reflecting management's initial estimate of future redress to customers categorised as non-sophisticated and related costs. As at 31 December 2012, an additional provision of £400m has been recognised, reflecting the results of the pilot review, an updated estimate of administrative costs and the greater clarity afforded by the implementation requirements agreed with the FSA. The provision recognised in the balance sheet as at 31 December 2012 is £814m, after utilisation of £36m during 2012, primarily related to administrative costs.

Notes
a Total claims received to date including those for which no PPI policy exists and excluding responses to proactive mailing.
b Claims include both customer initiated and proactive mailings.

26 Provisions (continued)

The pilot exercise provides the best currently available information upon which to base an estimate. However, the ultimate cost of the exercise will depend on the extent and nature of redress payable across the impacted population. This will be impacted by a number of factors, including:

- The number of customers for which Barclays is deemed not to have complied with relevant regulatory requirements at the time of sale
- The nature of any redress offered by Barclays, in particular whether existing products are terminated or replaced with alternative products
- The level of reasonably foreseeable consequential loss payable

The appropriate provision level will be kept under ongoing review as the main redress and review exercise progresses.

27 Contingent liabilities and commitments

Accounting for contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

The following table summarises the nominal principal amount of contingent liabilities and commitments which are not recorded on balance sheet:

	The Group		The Bank	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Securities lending arrangements	-	35,996	-	35,996
Guarantees and letters of credit pledged as collateral security	**15,855**	14,181	**15,730**	14,356
Performance guarantees, acceptances and endorsements	**6,406**	8,706	**5,840**	7,023
Contingent Liabilities	**22,261**	58,883	**21,570**	57,375
Documentary Credits and other short term trade related transactions	**1,027**	1,358	**744**	1,106
Standby facilities, credit lines and other commitments	**247,816**	240,282	**189,096**	190,736

Securities Lending Arrangements

Up to the disposal of Barclays Global Investors on 1 December 2009, the Group facilitated securities lending arrangements for its managed investment funds whereby securities held by funds under management were lent to third parties. Borrowers provided cash or investment grade assets as collateral equal to 100% of the market value of the securities lent plus a margin of 2% - 10%. The Group agreed with BlackRock, Inc. to continue to provide indemnities to support these arrangements until 30 November 2012.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (the FSCS) is the UK's 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. In April 2012, the FSCS agreed revised terms on the loan facilities including a 70bps increase in the interest rate payable to 12 month LIBOR plus 100bps. This rate will be subject to a floor equal to the HM Treasury's own cost of borrowing. The facilities are expected to be repaid wholly from recoveries from the failed deposit takers, except for an estimated shortfall of £0.8bn, The FSCS has announced it intends to recover this shortfall by levying the industry in roughly equal instalments across 2013, 2014 and 2015, in addition to the ongoing interest charges on the outstanding loans. Barclays has included an accrual of £156m in other liabilities as at 31 December 2012 (2011: £58m) in respect of the Barclays portion of the total levies raised by the FSCS

Notes to the financial statements

Accruals, provisions, legal proceedings and contingent liabilities

27 Contingent liabilities and commitments (continued)

US Mortgage Activities

Barclays activities within the US residential mortgage sector during the period of 2005 through 2008 included: sponsoring and underwriting of approximately $39bn of private-label securitisations; underwriting of approximately $34bn of 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. Some of the loans sold by Barclays were originated by a Barclays subsidiary. Barclays also performed servicing activities through its US residential mortgage servicing business which Barclays acquired in the for the quarter of 2006 and subsequently sold in the third quarter of 2010.

In connection with Barclays loan sales and sponsored private-label securitisations, Barclays provided certain loan level representations and warranties (R&Ws) generally relating to the underlying borrower, the property, mortgage documentation and/or compliance with law. Under certain circumstances, Barclays may be required to repurchase the related loans or make other payments related to such loans if the R&Ws are breached. Barclays was the sole provider of R&Ws with respect to approximately $5bn of Barclays sponsored securitizations, approximately $0.2bn of sales of loans to GSEs and approximately $3bn of loans sold to others. Other than approximately $1bn of loans sold to others for which R&Ws expired prior to 2012, there are no expiration provisions applicable to the R&Ws made by Barclays. Barclays R&Ws with respect to 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 and in respect of the approximately $5bn of Barclays sponsored securitisations discussed above. R&Ws on the remaining approximately $34bn of Barclays sponsored securitisations were primarily provided by third party originators directly to the securitisation trusts with Barclays, as depositor to the securitisation trusts, providing more limited R&Ws. Total unresolved repurchase requests associated with all R&Ws made by Barclays on loans sold to GSEs and others and private-label activities were $0.4bn at 31 December 2012. Barclays currently has no provisions with respect to such repurchase requests, given Barclays analysis of such requests and Barclays belief as to applicable defences with respect thereto. Based upon a large number of defaults occurring in US residential mortgages, there is a potential for additional requests for repurchases.

Claims against Barclays as an underwriter of RMBS offerings have been brought in certain civil actions. Additionally, Barclays has received inquiries from various regulatory and governmental authorities regarding its mortgage-related activities and is cooperating with such inquiries.

It is not practicable to provide an estimate of the financial impact of the potential exposure in relation to Barclays US Mortgage activities.

Further details on contingent liabilities relating to Legal Proceedings and Competition and Regulatory Matters are held in Note 28 and 29 respectively.

28 Legal Proceedings

Lehman Brothers

On 15 September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) by Lehman Brothers Holdings Inc. (LBHI), the SIPA Trustee for Lehman Brothers Inc. (the Trustee) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the Committee). All three motions challenged certain aspects of the transaction pursuant to which BCI and other companies in the Group acquired most of the assets of Lehman Brothers Inc. (LBI) in September 2008 and the Court Order approving such sale (the Sale). The claimants were seeking an order voiding the transfer of certain assets to BCI; requiring BCI to return to the LBI estate alleged excess value BCI received; and declaring that BCI is not entitled to certain assets that it claims pursuant to the sale documents and Order approving the Sale (the Rule 60 Claims). On 16 November 2009, LBHI, the Trustee and the Committee filed separate complaints in the Bankruptcy Court asserting claims against BCI based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On 29 January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI have 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, the Contract Claims). Approximately $4.5bn (£2.8bn) of the assets acquired as part of the acquisition had not been received by 31 December 2012, approximately $3.0bn (£1.9bn) of which were recognised as part of the accounting for the acquisition and are included in the balance sheet as at 31 December 2012. This results in an effective provision of $1.5bn (£0.9bn) against the uncertainty inherent in the litigation and issues relating to the recovery of certain assets held by institutions outside the United States.

On 22 February 2011, the Bankruptcy Court issued its Opinion in relation to these matters, rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favour and some in favour of BCI. On 15 July 2011, the Bankruptcy Court entered final Orders implementing its Opinion. Barclays and the Trustee each appealed the Bankruptcy Court's adverse rulings on the Contract Claims to the United States District Court for the Southern District of New York (the District Court). LBHI and the Committee did not pursue an appeal from the Bankruptcy Court's ruling on the Rule 60 Claims. After briefing and argument, the District Court issued its Opinion on 5 June 2012 in which it reversed one of the Bankruptcy Court's rulings on the Contract Claims that had been adverse to Barclays and affirmed the Bankruptcy Court's other rulings on the Contract Claims. On 17 July 2012, the District Court issued an amended Opinion, correcting certain errors but not otherwise affecting the rulings, and an agreed Judgment implementing the rulings in the Opinion. Barclays and the Trustee have each appealed the adverse rulings of the District Court to the United States Court of Appeals for the Second Circuit.

28 Legal Proceedings (continued)

Under the Judgment of the District Court, Barclays is entitled to receive:

- $1.1bn (£0.7bn) from the Trustee in respect of "clearance box" assets;
- property held at various institutions to secure obligations under the exchange-traded derivatives transferred to Barclays in the Sale (the ETD Margin), subject to the proviso that Barclays will be entitled to receive $507m (£0.3bn) of the ETD Margin only if and to the extent the Trustee has assets available once the Trustee has satisfied all of LBI's customer claims; and
- $769m (£0.5bn) from the Trustee in respect of LBI's 15c3-3 reserve account assets only if and to the extent the Trustee has assets available once the Trustee has satisfied all of LBI's customer claims.

A portion of the ETD Margin which has not yet been recovered by Barclays or the Trustee is held or owed by certain institutions outside the United States (including several Lehman affiliates that are subject to insolvency or similar proceedings). Barclays cannot reliably estimate at this time how much of the ETD Margin held or owed by such institutions Barclays is ultimately likely to receive. Further, Barclays cannot reliably estimate at this time if and to the extent the Trustee will have assets remaining available to it to pay Barclays the $507m (£0.3bn) in respect of ETD Margin or the $769m (£0.5bn) in respect of LBI's 15c3-3 reserve account assets after satisfying all of LBI's customer claims. In this regard, the Trustee announced in October 2012 that if his proposed settlement agreements with LBHI and with the Administrator for the liquidation of Lehman Brothers Inc. (Europe) are approved by the relevant courts, then the Trustee should be in position to satisfy all customer claims and make meaningful distributions to creditors (without having to use any of the assets that Barclays claims). If the District Court's rulings were to be unaffected by future proceedings, conservatively assuming no recovery by Barclays of any of the ETD Margin not yet recovered by Barclays or the Trustee that is held or owed by institutions outside the United States and no recovery by Barclays of the $507m (£0.3bn) in respect of ETD Margin or the $769m (£0.5bn) in respect of LBI's 15c3-3 reserve account assets, Barclays estimates its loss would be approximately $0.9bn (£0.5bn). Under the same scenario, but assuming the Trustee's proposed settlement agreements with LBHI and the Administrator for the liquidation of Lehman Brothers Inc. (Europe) are implemented, and result in the receipt by Barclays of the $507m ETD Margin and $769m in respect of the 15c3-3 reserve account assets, Barclays estimates its profit would be approximately $0.4bn (£0.2bn) plus the value of any recovery of the ETD Margin held or owed by institutions outside of the United States. In this context, Barclays is satisfied with the valuation of the asset recognised on its balance sheet and the resulting level of effective provision.

American Depositary Shares

Barclays Bank PLC, Barclays PLC and various current and former members of Barclays PLC's Board of Directors have been named as defendants in five proposed securities class actions (which have been consolidated) pending in the United States District Court for the Southern District of New York (the Court). The consolidated amended complaint, dated 12 February 2010, alleges that the registration statements relating to American Depositary Shares representing Preferred Stock, Series 2, 3, 4 and 5 (the ADS) offered by Barclays Bank PLC at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) Barclays portfolio of mortgage-related (including US subprime-related) securities, Barclays exposure to mortgage and credit market risk and Barclays financial condition. The consolidated amended complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. On 5 January 2011, the Court issued an Order and, on 7 January 2011, Judgment was entered, granting the defendants' motion to dismiss the complaint in its entirety and closing the case. On 4 February 2011, the plaintiffs filed a motion asking the Court to reconsider in part its dismissal order. On 31 May 2011, the Court denied in full the plaintiffs' motion for reconsideration. The plaintiffs have appealed both decisions (the grant of the defendants' motion to dismiss and the denial of the plaintiffs' motion for reconsideration) to the United States Court of Appeals for the Second Circuit. Oral argument was held on 18 October 2012.

Barclays considers that these ADS-related claims against it are without merit and is defending them vigorously. It is not practicable to estimate Barclays possible loss in relation to these claims or any effect that they might have upon operating results in any particular financial period.

US Federal Housing Finance Agency and Other Residential Mortgage Backed Securities Litigation

The United States Federal Housing Finance Agency (FHFA), acting for two US government sponsored enterprises, Fannie Mae and Freddie Mac (collectively, the GSEs), filed lawsuits against 17 financial institutions in connection with the GSEs' purchases of residential mortgage backed securities (RMBS). The lawsuits allege, amongst other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. Barclays Bank PLC 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 BCI 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 the GSEs' alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to other civil actions filed against Barclays Bank and/or certain of its affiliates by other plaintiffs, including the Federal Home Loan Bank of Seattle, Federal Home Loan Bank of Boston, Federal Home Loan Bank of Chicago, Cambridge Place Investment Management, Inc., HSH Nordbank AG (and affiliates), Sealink Funding Limited, Landesbank Baden-Württemberg (and affiliates), Deutsche Zentral-Genossenschaftsbank AG (and affiliates), Stichting Pensioenfonds ABP, Royal Park Investments SA/NV, Bayerische Landesbank, John Hancock Life Insurance Company (and affiliates), Prudential Life Insurance Company of America (and affiliates) and the National Credit Union Administration relating to purchases of RMBS. Barclays considers that the claims against it are without merit and intends to defend them vigorously.

Notes to the financial statements
Accruals, provisions, legal proceedings and contingent liabilities

28 Legal Proceedings (continued)
The original amount of RMBS related to the claims against Barclays in the FHFA cases and the other civil actions against Barclays Bank PLC and/or certain of its affiliates totalled approximately $8.5bn, of which approximately $2.7bn was outstanding as at 31 December 2012. Cumulative losses reported on these RMBS as at 31 December 2012 were approximately $0.4bn. If Barclays were to lose these cases Barclays believes it could incur a loss of up to the outstanding amount of the RMBS at the time of Judgment (taking into account further principal payments after 31 December 2012), 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. Barclays has estimated the total market value of the RMBS as at 31 December 2012 to be approximately $1.6bn. Barclays may be entitled to indemnification for a portion of any losses. These figures do not include two related class actions brought on behalf of a putative class of investors in RMBS issued by Countrywide and underwritten by BCI and other underwriters, in which Barclays is indemnified by Countrywide.

Devonshire Trust
On 13 January 2009, Barclays commenced an action in the Ontario Superior Court (the Court) seeking an order that its early terminations earlier that day 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, Devonshire purported to terminate the swaps on the ground that Barclays had failed to provide liquidity support to Devonshire's commercial paper when required to do so. On 7 September 2011, the Court ruled that Barclays early terminations were invalid, Devonshire's early terminations were valid and, consequently, Devonshire was entitled to receive back from Barclays cash collateral of approximately C$533m together with accrued interest thereon. Barclays is appealing the Court's decision. If the Court's decision were to be unaffected by future proceedings, Barclays estimates that its loss would be approximately C$500m, less any impairment provisions taken by Barclays for this matter.

LIBOR Civil Actions
Barclays and other banks have been named as defendants in class action and non-class action lawsuits pending in United States Federal Courts in connection with their roles as contributor panel banks to US Dollar LIBOR, the first of which was filed on 15 April 2011. The complaints are substantially similar and allege, amongst other things, that Barclays and the other banks individually and collectively violated various provisions of the Sherman Act, the Commodity Exchange Act, the Racketeer Influenced and Corrupt Organizations Act (RICO) and various state laws by suppressing or otherwise manipulating US Dollar LIBOR rates. The lawsuits seek an unspecified amount of damages and trebling of damages under the Sherman and RICO Acts. The proposed class actions purport to be brought on behalf of (amongst others) plaintiffs that (i) engaged in US Dollar LIBOR-linked over-the-counter transactions; (ii) purchased US Dollar LIBOR-linked financial instruments on an exchange; (iii) purchased US Dollar LIBOR-linked debt securities; (iv) purchased adjustable-rate mortgages linked to US Dollar LIBOR; or (v) issued loans linked to US Dollar LIBOR.

An additional class action was commenced on 30 April 2012 in the United States District Court for the Southern District of New York (SDNY) against Barclays and other Japanese Yen LIBOR panel banks by plaintiffs involved in exchange-traded derivatives. The complaint also names members of the Japanese Bankers Association's Euroyen TIBOR panel, of which Barclays is not a member. The complaint alleges, amongst other things, manipulation of the Euroyen TIBOR and Yen LIBOR rates and breaches of US antitrust laws between 2006 and 2010.

A further class action was commenced on 6 July 2012 in the SDNY against Barclays and other EURIBOR panel banks by plaintiffs that purchased or sold EURIBOR-related financial instruments. The complaint alleges, amongst other things, manipulation of the EURIBOR rate and breaches of the Sherman Act and the Commodity Exchange Act beginning as early as 1 January 2005 and continuing through to 31 December 2009. On 23 August 2012, the plaintiffs voluntarily dismissed the complaint.

In addition, Barclays has been granted conditional leniency from the Antitrust Division of the DOJ in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR.

Barclays has also been named as a defendant along with four current and former Barclays officers and directors in a proposed securities class action pending in the SDNY in connection with Barclays role as a contributor panel bank to LIBOR. The complaint principally alleges that Barclays Annual Reports for the years 2006-2011 contained misstatements and omissions concerning (amongst other things) Barclays compliance with its operational risk management processes and certain laws and regulations. The complaint also alleges that Barclays daily US Dollar LIBOR submissions themselves constituted false statements in violation of US securities law. The complaint is brought on behalf of a proposed class consisting of all persons or entities (other than the defendants) that purchased Barclays sponsored American Depositary Receipts on an American securities exchange between 10 July 2007 and 27 June 2012. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act 1934.

On 21 February 2013, a class action was commenced in the United States District Court for the Northern District of Illinois against Barclays and other EURIBOR panel banks by plaintiffs that purchased or sold a NYSE LIFFE EURIBOR futures contract. The complaint alleges manipulation of the EURIBOR rate and violations of the Sherman Act beginning as early as 1 June 2005 and continuing through 30 June 2010.

It is not practicable to provide an estimate of the financial impact of the potential exposure of any of the actions described or what effect if any that they might have upon operating results, cash flows or Barclays financial position in any particular period.

See also Note 29.

28 Legal Proceedings (continued)

Other

Barclays is engaged in various other legal proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against it which arise in the ordinary course of business, including debt collection, consumer claims and contractual disputes. Barclays does not expect the ultimate resolution of any of these proceedings to which Barclays is party to have a material adverse effect on its results of operations, cash flows or the financial position of the Group and Barclays has not disclosed the contingent liabilities associated with these claims either because they cannot reliably be estimated or because such disclosure could be prejudicial to the conduct of the claims. Provisions have been recognised for those cases where Barclays is able reliably to estimate the probable loss where the probable loss is not de minimis.

29 Competition and regulatory matters

This note highlights some of the key competition and regulatory challenges facing Barclays, many of which are beyond our control. The extent of the impact of these matters on Barclays and the impact on Barclays of any other competition and regulatory matters in which Barclays is or may in the future become involved cannot always be predicted but may materially impact our businesses and earnings.

Regulatory change

There is continuing political and regulatory scrutiny of the banking industry which, in some cases, is leading to increased or changing regulation which is likely to have a significant effect on the industry.

On 4 February 2013, the UK Government introduced the Financial Services (Banking Reform) Bill (the Bill) to the House of Commons. The Bill would give the UK authorities the powers to implement the key recommendations of the Independent Commission on Banking by requiring, amongst other things: (i) the separation of the UK and EEA retail banking activities of UK banks in a legally distinct, operationally separate and economically independent entity (so called 'ring fencing') and (ii) the increase of the loss-absorbing capacity of ring-fenced banks and UK headquartered global systemically important banks to levels higher than the Basel 3 guidelines. The Bill would also give depositors protected under the Financial Services Compensation Scheme preference if a bank enters insolvency. At the same time, the Government announced that it will be bringing forward amendments to the Bill to establish a reserve power allowing the regulator, with approval from the Government, to enforce full separation under certain circumstances. The Government is expected to publish draft secondary legislation by late summer this year. The UK Government intends that primary and secondary legislation will be in place by the end of this Parliament (May 2015) and that UK banks will be required to be compliant by 1 January 2019.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act contains far reaching regulatory reform, including potential reform of the regulatory regime for foreign banks operating in the US which may, amongst other things, require the US subsidiaries of foreign banks to be held under a US intermediate holding company subject to a comprehensive set of prudential and supervisory requirements in the US. The full impact on Barclays businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

Interchange

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. These investigations may have an impact on the consumer credit industry as well as having the potential for the imposition of fines. The timing of these cases is uncertain and it is not possible to provide an estimate of the potential financial impact of this matter on Barclays.

London Interbank Offered Rate

The UK Financial Services Authority (the FSA), the US Commodity Futures Trading Commission (the CFTC), the US Securities and Exchange Commission, the US Department of Justice Fraud Section (the DOJ-FS) and Antitrust Division, the European Commission, the UK Serious Fraud Office and various US state attorneys general are amongst various authorities conducting investigations (the Investigations) into submissions made by Barclays and other panel members to the bodies that set various interbank offered rates, such as the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR).

On 27 June 2012, Barclays announced that it had reached settlements with the FSA, the CFTC and the DOJ-FS in relation to their Investigations and Barclays had agreed to pay total penalties of £290m (Pounds Sterling equivalent), which have been 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. In addition, Barclays has been granted conditional leniency from the Antitrust Division of the Department of Justice 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 FSA. 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 Barclays to cease and desist from further violations of specified provisions of the 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 Barclays to:

Notes to the financial statements
Accruals, provisions, legal proceedings and contingent liabilities

29 Competition and regulatory matters (continued)

- Make its submissions based on certain specified factors, with Barclays 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, Barclays agreed to pay a $160m penalty. In addition, the DOJ agreed not to prosecute Barclays for any crimes (except for criminal tax violations, as to which the DOJ cannot and does not make any agreement) related to Barclays submissions of benchmark interest rates, including LIBOR and EURIBOR, contingent upon Barclays satisfaction of specified obligations under the NPA. In particular, under the NPA, Barclays agreed for a period of two years from 26 June 2012, amongst other things, to:

- Commit no United States crime whatsoever;
- Truthfully and completely disclose non-privileged information with respect to the activities of Barclays, 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 Barclays 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 United States by or against Barclays or its employees that alleges fraud or violations of the laws governing securities and commodities markets

Barclays also agreed to cooperate with the DOJ and other government authorities in the United States 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. Barclays also continues to cooperate with the other ongoing investigations.

It is not practicable to provide an estimate of the financial impact of these matters or what effect, if any, that the matters might have upon operating results, cash flows or Barclays financial position in any particular period.

For a discussion of litigation arising in connection with the Investigations see Note 28.

Interest Rate Hedging Products
See Note 26.

FERC Investigation
The United States Federal Energy Regulatory Commission (the FERC) Office of Enforcement investigated Barclays power trading in the western US with respect to the period from late 2006 through 2008. On 31 October 2012, the FERC issued a public Order to Show Cause and Notice of Proposed Penalties (Order and Notice) against Barclays Bank PLC in relation to this matter. In the Order and Notice the FERC asserts that Barclays Bank PLC violated the FERC's Anti-Manipulation Rule by manipulating the electricity markets in and around California from November 2006 to December 2008. The FERC is proposing that Barclays Bank PLC pay a $435m civil penalty and disgorge an additional $34.9m of profits plus interest. Barclays intends to defend this matter vigorously.

Other Regulatory Investigations
The FSA and the Serious Fraud Office are both investigating certain commercial agreements between Barclays and Qatari interests and whether these may have related to Barclays capital raisings in June and November 2008. The FSA investigation involves four current and former senior employees including Chris Lucas, Group Finance Director, as well as Barclays. The FSA enforcement investigation began in July 2012 and the Serious Fraud Office commenced its investigation in August 2012.

In October 2012 Barclays was informed by the US Department of Justice and the US Securities and Exchange Commission that they had commenced an investigation into whether the Group's relationships with third parties who assist Barclays to win or retain business are compliant with the United States Foreign Corrupt Practices Act.

Barclays is co-operating with all the authorities fully. It is not possible to estimate the financial impact upon Barclays should any adverse findings be made.

Notes to the financial statements
Capital instruments, equity and reserves

Capital instruments, equity and reserves

The notes included in this section focus on the Group's loan capital and shareholders equity including issued share capital, retained earnings, other equity balances and interests of minority shareholders in our subsidiary entities (non-controlling interests). For more information on capital management and how the Group maintains sufficient capital to meet our regulatory requirements see pages 66 to 70.

30 Subordinated liabilities

Accounting for subordinated debt
Subordinated debt is measured at amortised cost using the effective interest method under IAS 39.

Subordinated liabilities, which are all issued by Barclays Bank PLC ('The Bank') or other subsidiaries of the Group, include accrued interest and comprise undated and dated loan capital as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Undated subordinated liabilities	**6,740**	6,741	**6,552**	9,749
Dated subordinated liabilities	**17,682**	18,129	**16,389**	17,015
Total subordindated liabilities	**24,422**	24,870	**22,941**	26,764

None of the Group's loan capital is secured. Regulatory capital differs from the amounts recorded in the balance sheet due to FSA 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

Notes to the financial statements
Capital instruments, equity and reserves

30 Subordinated liabilities (continued)

Undated subordinated liabilities		The Group		The Bank	
		2012	2011	2012	2011
	Initial call date	£m	£m	£m	£m
Barclays Bank PLC issued					
Tier One Notes (TONs)					
6% Callable Perpetual Core Tier One Notes	2032	**116**	103	**116**	501
6.86% Callable Perpetual Core Tier One Notes ($681m)	2032	**720**	753	**720**	1,105
Reserve Capital Instruments (RCIs)					
5.926% Step-up Callable Perpetual Reserve Capital Instruments ($533m)	2016	**393**	414	**393**	1,048
7.434% Step-up Callable Perpetual Reserve Capital Instruments ($347m)	2017	**261**	273	**261**	990
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	2019	**117**	122	**117**	629
14% Step-up Callable Perpetual Reserve Capital Instruments	2019	**3,298**	3,210	**3,298**	3,210
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	2036	**113**	120	**113**	696
Undated Notes					
6.875% Undated Subordinated Notes	2015	**152**	158	**152**	158
6.375% Undated Subordinated Notes	2017	**153**	157	**153**	157
7.7% Undated Subordinated Notes ($99m)	2018	**72**	75	**72**	75
8.25% Undated Subordinated Notes	2018	**165**	166	**165**	166
7.125% Undated Subordinated Notes	2020	**215**	214	**215**	214
6.125% Undated Subordinated Notes	2027	**233**	233	**233**	233
Junior Undated Floating Rate Notes ($121m)	Any interest payment date	**75**	78	**133**	141
Undated Floating Rate Primary Capital Notes Series 3	Any interest payment date	**146**	146	**146**	146
Bonds					
9.25% Perpetual Subordinated Bonds (ex-Woolwich PLC)	2021	**99**	99	**99**	99
9% Permanent Interest Bearing Capital Bonds	At any time	**47**	46	**47**	46
Loans					
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	2028	**47**	53	**47**	53
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	2028	**72**	82	**72**	82
Barclays SLCSM Funding B.V. guaranteed by the Bank					
6.140% Fixed Rate Guaranteed Perpetual Subordinated Notes	2015	**246**	239	**-**	-
Total undated subordinated liabilities		**6,740**	6,741	**6,552**	9,749

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.

30 Subordinated liabilities (continued)

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 or (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 FSA. 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 prior notification to the FSA.

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30 Subordinated liabilities (continued)
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.

Dated subordinated liabilities			The Group		The Bank	
			2012	2011	2012	2011
	Initial call date	Maturity date	£m	£m	£m	£m
Barclays Bank PLC issued						
Callable Floating Rate Subordinated Notes ($500m)	2012	2017	-	324	-	324
10.125% Subordinated Notes (ex-Woolwich plc)	2012	2017	-	102	-	102
Floating Rate Subordinated Step-up Callable Notes ($1,500m)	2012	2017	-	972	-	972
Floating Rate Subordinated Step-up Callable Notes (€1,500m)	2012	2017	-	1,259	-	1,259
5.015% Subordinated Notes ($150m)		2013	**96**	103	**96**	103
4.875% Subordinated Notes (€750m)		2013	**636**	659	**636**	659
Callable Fixed/Floating Rate Subordinated Notes (€1,000m)	2014	2019	**861**	900	**861**	900
4.38% Fixed Rate Subordinated Notes ($75m)		2015	**52**	55	**52**	55
4.75% Fixed Rate Subordinated Notes ($150m)		2015	**103**	110	**103**	110
5.14% Lower Tier 2 Notes ($1,250m)	2015	2020	**885**	900	**885**	900
6.05% Fixed Rate Subordinated Notes ($2,250m)		2017	**1,635**	1,723	**1,635**	1,723
Floating Rate Subordinated Notes (€40m)		2018	**33**	34	**33**	34
6% Fixed Rate Subordinated Notes (€1,750m)		2018	**1,519**	1,556	**1,519**	1,556
CMS-Linked Subordinated Notes (€100m)		2018	**85**	88	**85**	88
CMS-Linked Subordinated Notes (€135m)		2018	**114**	117	**114**	117
Fixed/Floating Rate Subordinated Callable Notes	2018	2023	**608**	621	**608**	621
Floating Rate Subordinated Notes (€50m)		2019	**40**	41	**40**	41
6% Fixed Rate Subordinated Notes (€1,500m)		2021	**1,333**	1,333	**1,333**	1,333
9.5% Subordinated Bonds (ex-Woolwich plc)		2021	**338**	344	**338**	344
Subordinated Floating Rate Notes (€100m)		2021	**80**	83	**80**	83
10% Fixed Rate Subordinated Notes		2021	**2,446**	2,389	**2,446**	2,389
10.179% Fixed Rate Subordinated Notes ($1,521m)		2021	**1,133**	1,174	**1,133**	1,174
Subordinated Floating Rate Notes (€50m)		2022	**41**	42	**41**	42
6.625% Fixed Rate Subordinated Notes (€1,000m)		2022	**954**	954	**954**	954
7.625% Contingent Capital Notes ($3,000m)		2022	**2,252**	-	**2,252**	-
Subordinated Floating Rate Notes (€50m)		2023	**41**	42	**41**	42
5.75% Fixed Rate Subordinated Notes		2026	**810**	781	**810**	781
5.4% Reverse Dual Currency Subordinated Loan (Yen 15,000m)		2027	**90**	104	**90**	104
6.33% Subordinated Notes		2032	**62**	62	**62**	62
Subordinated Floating Rate Notes (€100m)		2040	**82**	84	**82**	84
Other loans from subsidiaries			-	-	**60**	59
Absa Bank Limited issued						
8.75% Subordinated Callable Notes (ZAR 1,500m)	2012	2017	-	124	-	-
6.25% CPI-linked Subordinated Callable Notes (ZAR 1,886m)	2013	2018	**169**	181	-	-
8.8% Subordinated Fixed Rate Callable Notes (ZAR 1,725m)	2014	2019	**136**	148	-	-
6.00% CPI-linked Subordinated Callable Notes (ZAR 3,758m)	2014	2019	**275**	286	-	-
8.1% Subordinated Callable Notes (ZAR 2,000m)	2015	2020	**156**	167	-	-
10.28% Subordinated Callable Notes (ZAR 600m)	2017	2022	**44**	49	-	-
Subordinated Callable Notes (ZAR 400m)	2017	2022	**29**	32	-	-
Subordinated Callable Notes (ZAR 1,805m)	2017	2022	**132**	-	-	-
Subordinated Callable Notes (ZAR 2,007m)	2018	2023	**147**	-	-	-
8.295% Subordinated Callable Notes (ZAR 1,188m)	2018	2023	**87**	-	-	-
5.50% CPI-linked Subordinated Callable Notes (ZAR 1,500m)	2023	2028	**129**	135	-	-
Other capital issued by Barclays Botswana, Kenya and Zambia		2011-2016	**49**	51	-	-
Total subordinated liabilities			**17,682**	18,129	**16,389**	17,015

30 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.

All other non-convertible Notes are generally fixed interest for the life of the issue, but some are reset to a floating rate after a fixed period, with varying interest rate terms.

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 2012 is redeemable only on maturity; subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law legislation or regulations.

Any repayments prior to maturity require, in the case of the Bank, the prior notification to the FSA, 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 £15m (2011: £26m) 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 5.14% Lower Tier 2 Notes and the 7.625% Contingent Capital Notes were registered under the US Securities Act of 1933. All other issues of dated loan capital have been made in the euro currency market, local markets and/or under Rule 144A.

31 Ordinary shares, share premium, and other equity

Ordinary Shares

The issued ordinary share capital of Barclays Bank PLC, as at 31 December 2012, comprised 2,342 million ordinary shares of £1 each (2011: 2,342 million).

Preference Shares

The issued preference share capital of Barclays Bank PLC, as at 31st December 2012, comprised 1,000 Sterling Preference Shares of £1 each (2011: 1,000); 240,000 Euro Preference Shares of €100 each (2011: 240,000); 75,000 Sterling Preference Shares of £100 each (2011: 75,000); 100,000 US Dollar Preference Shares of US$100 each (2011: 100,000); and 237 million US Dollar Preference Shares of US$0.25 each (2011: 237 million).

Share capital	2012 £m	2011 £m
Called up ordinary share capital, allotted and fully paid		
As at 1 January	**2,342**	2,342
As at 31 December	**2,342**	2,342
Called up preference share capital, allotted and fully paid as at 1 January and 31 December	**60**	60
Called up share capital	**2,402**	2,402

Share premium	2012 £m	2011 £m
As at 1 January	**12,092**	12,092
As at 31 December	**12,092**	12,092

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31 Ordinary shares, share premium, and other equity (continued)

Sterling £1 Preference Shares
1,000 Sterling cumulative callable preference shares of £1 each (the £1 Preference Shares) were issued on 31 December 2004 at nil premium.

The £1 Preference Shares entitle the holders thereof to receive Sterling cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a rate reset semi-annually equal to the Sterling interbank offered rate for six-month sterling deposits.

Barclays Bank PLC shall be obliged to pay such dividends if: (1) it has profits available for the purpose of distribution under the Companies Act 2006 as at each dividend payment date; and (2) it is solvent on the relevant dividend payment date, provided that a capital regulations condition is satisfied on such dividend payment date. The dividends shall not be due and payable on the relevant dividend payment date except to the extent that Barclays Bank PLC could make such payment and still be solvent immediately thereafter. Barclays Bank PLC shall be considered solvent on any date if: (1) it is able to pay its debts to senior creditors as they fall due; and (2) its auditors have reported within the previous six months that its assets exceed its liabilities. If Barclays Bank PLC shall not pay, or shall pay only in part, a dividend for a period of seven days or more after the due date for payment, the holders of the £1 Preference Shares may institute proceedings for the winding-up of Barclays Bank PLC. No remedy against Barclays Bank PLC shall be available to the holder of any £1 Preference Shares for the recovery of amounts owing in respect of £1 Preference Shares other than the institution of proceedings for the winding-up of Barclays Bank PLC and/or proving in such winding-up.

On a winding-up or other return of capital (other than a redemption or purchase by Barclays Bank PLC of any of its issued shares, or a reduction of share capital, permitted by the Articles of Barclays Bank PLC and under applicable law), the assets of Barclays Bank PLC available to shareholders shall be applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of Barclays Bank PLC then in issue ranking junior to the £1 Preference Shares on such a return of capital and pari passu on such a return of capital with the holders of any other class of shares in the capital of Barclays Bank PLC then in issue (other than any class of shares in the capital of Barclays Bank PLC then in issue ranking in priority to the £1 Preference Shares on a winding-up or other such return of capital), in payment to the holders of the £1 Preference Shares of a sum equal to the aggregate of: (1) an amount equal to the dividends accrued thereon for the then current dividend period (and any accumulated arrears thereof) to the date of the commencement of the winding-up or other such return of capital; and (2) an amount equal to £1 per £1 Preference Share. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the £1 Preference Shares will have no right or claim to any of the remaining assets of Barclays Bank PLC and will not be entitled to any further participation in such return of capital.

The £1 Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, subject to the Companies Act 2006 and its Articles. Holders of the £1 Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC.

Euro Preference Shares
100,000 Euro 4.875% non-cumulative callable preference shares of €100 each (the 4.875% Preference Shares) were issued on 8 December 2004 for a consideration of €993.6m (£688.4m), of which the nominal value was €10m and the balance was share premium. The 4.875% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.875% per annum on the amount of €10,000 per preference share until 15 December 2014, and thereafter quarterly at a rate reset quarterly equal to 1.05% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.875% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2014, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

140,000 Euro 4.75% non-cumulative callable preference shares of €100 each (the 4.75% Preference Shares) were issued on 15 March 2005 for a consideration of €1,383.3m (£966.7m), of which the nominal value was €14m and the balance was share premium. The 4.75% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.75% per annum on the amount of €10,000 per preference share until 15 March 2020, and thereafter quarterly at a rate reset quarterly equal to 0.71% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 March 2020, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

Sterling Preference Shares
75,000 Sterling 6.0% non-cumulative callable preference shares of £100 each (the 6.0% Preference Shares) were issued on 22 June 2005 for a consideration of £743.7m, of which the nominal value was £7.5m and the balance was share premium. The 6.0% Preference Shares entitle the holders thereof to receive Sterling non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 6.0% per annum on the amount of £10,000 per preference share until 15 December 2017, and thereafter quarterly at a rate reset quarterly equal to 1.42% per annum above the London interbank offered rate for three-month Sterling deposits.

The 6.0% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2017, and on each dividend payment date thereafter at £10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

31 Ordinary shares, share premium, and other equity (continued)

US Dollar Preference Shares

100,000 US Dollar 6.278% non-cumulative callable preference shares of US$100 each (the 6.278% Preference Shares), represented by 100,000 American Depositary Shares, Series 1, were issued on 8 June 2005 for a consideration of US$995.4m (£548.1m), of which the nominal value was US$10m and the balance was share premium. The 6.278% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a fixed rate of 6.278% per annum on the amount of US$10,000 per preference share until 15 December 2034, and thereafter quarterly at a rate reset quarterly equal to 1.55% per annum above the London interbank offered rate for three-month US Dollar deposits.

The 6.278% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15 December 2034, and on each dividend payment date thereafter at US$10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

30 million US Dollar 6.625% non-cumulative callable preference shares of US$0.25 each (the 6.625% Preference Shares), represented by 30 million American Depositary Shares, Series 2, were issued on 25 and 28 April 2006 for a consideration of US$727m (£406m), of which the nominal value was US$7.5m and the balance was share premium. The 6.625% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 6.625% per annum on the amount of US$25 per preference share.

The 6.625% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on any dividend payment date at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

55 million US Dollar 7.1% non-cumulative callable preference shares of US$0.25 each (the 7.1% Preference Shares), represented by 55 million American Depositary Shares, Series 3, were issued on 13 September 2007 for a consideration of US$1,335m (£657m), of which the nominal value was US$13.75m and the balance was share premium. The 7.1% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.1% per annum on the amount of US$25 per preference share.

The 7.1% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on any dividend payment date at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

46 million US Dollar 7.75% non-cumulative callable preference shares of US$0.25 each (the 7.75% Preference Shares), represented by 46 million American Depositary Shares, Series 4, were issued on 7 December 2007 for a consideration of US$1,116m (£550m), of which the nominal value was US$11.5m and the balance was share premium. The 7.75% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.75% per annum on the amount of US$25 per preference share.

The 7.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 March 2013, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

106 million US Dollar 8.125% non-cumulative callable preference shares of US$0.25 each (the 8.125% Preference Shares), represented by 106 million American Depositary Shares, Series 5, were issued on 11 April 2008 and 25 April 2008 for a total consideration of US$2,650m (£1,345m), of which the nominal value was US$26.5m and the balance was share premium. The 8.125% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 8.125% per annum on the amount of US$25 per preference share.

The 8.125% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 June 2013, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

No redemption or purchase of any 4.875% Preference Shares, the 4.75% Preference Shares, the 6.0% Preference Shares, the 6.278% Preference Shares, the 6.625% Preference Shares, the 7.1% Preference Shares, the 7.75% Preference Shares and the 8.125% Preference Shares (together, the Preference Shares) may be made by Barclays Bank PLC without the prior notification to the UK FSA and any such redemption will be subject to the Companies Act 2006 and the Articles of Barclays Bank PLC.

On a winding-up of Barclays Bank PLC or other return of capital (other than a redemption or purchase of shares of Barclays Bank PLC, or a reduction of share capital), a holder of Preference Shares will rank in the application of assets of Barclays Bank PLC available to shareholders: (1) junior to the holder of any shares of Barclays Bank PLC in issue ranking in priority to the Preference Shares; (2) equally in all respects with holders of other preference shares and any other shares of Barclays Bank PLC in issue ranking pari passu with the Preference Shares; and (3) in priority to the holders of ordinary shares and any other shares of Barclays Bank PLC in issue ranking junior to the Preference Shares.

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31 Ordinary shares, share premium, and other equity (continued)

The holders of the 6% Callable Perpetual Core Tier One Notes and the US$681m 6.86% Callable Perpetual Core Tier One Notes of Barclays Bank PLC (together, the TONs) and the holders of the 5.3304% Step-up Callable Perpetual Reserve Capital Instruments, the US$533m 5.926% Step-up Callable Perpetual Reserve Capital Instruments, the 6.3688% Step-up Callable Perpetual Reserve Capital Instruments, the US$347m 7.434% Step-up Callable Perpetual Reserve Capital Instruments and the 14% Step-up Callable Perpetual Reserve Capital Instruments of Barclays Bank PLC (together, the RCIs) would, for the purposes only of calculating the amounts payable in respect of such securities on a winding-up of Barclays Bank PLC, subject to limited exceptions and to the extent that the TONs and the RCIs are then in issue, rank pari passu with the holders of the most senior class or classes of preference shares then in issue in the capital of Barclays Bank PLC. Accordingly, the holders of the preference shares would rank equally with the holders of such TONs and RCIs on such a winding-up of Barclays Bank PLC (unless one or more classes of shares of Barclays Bank PLC ranking in priority to the preference shares are in issue at the time of such winding-up, in which event the holders of such TONs and RCIs would rank equally with the holders of such shares and in priority to the holders of the preference shares).

Subject to such ranking, in such event, holders of the preference shares will be entitled to receive out of assets of Barclays Bank PLC available for distributions to shareholders, liquidating distributions in the amount of €10,000 per 4.875% Preference Share, €10,000 per 4.75% Preference Share, £10,000 per 6.0% Preference Share, US$10,000 per 6.278% Preference Share, US$25 per 6.625% Preference Share, US$25 per 7.1% Preference Share, US$25 per 7.75% Preference Share and US$0.25 per 8.125% Preference Share, plus, in each case, an amount equal to the accrued dividend for the then current dividend period to the date of the commencement of the winding-up or other such return of capital. If a dividend is not paid in full on any preference shares on any dividend payment date, then a dividend restriction shall apply.

This dividend restriction will mean that neither Barclays Bank PLC nor Barclays PLC may (a) declare or pay a dividend (other than payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by Barclays Bank PLC to Barclays PLC or to a wholly owned subsidiary) on any of their respective ordinary shares, other preference shares or other share capital or (b) redeem, purchase, reduce or otherwise acquire any of their respective share capital, other than shares of Barclays Bank PLC held by Barclays PLC or a wholly owned subsidiary, until the earlier of: (1) the date on which Barclays Bank PLC next declares and pays in full a preference dividend; and (2) the date on or by which all the preference shares are redeemed in full or purchased by Barclays Bank PLC.

Holders of the preference shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC. Barclays Bank PLC is not permitted to create a class of shares ranking as regards participation in the profits or assets of Barclays Bank PLC in priority to the preference shares, save with the sanction of a special resolution of a separate general meeting of the holders of the preference shares (requiring a majority of not less than three-fourths of the holders of the preference shares voting at the separate general meeting) or with the consent in writing of the holders of three-fourths of the preference shares.

Except as described above, the holders of the preference shares have no right to participate in the surplus assets of Barclays Bank PLC.

Other shareholders' equity

Certain issuances of capital notes by Barclays Bank PLC represent other shareholders' equity.

	The Group £m	The Bank £m
As at 1 January 2012	**648**	**712**
Tax Credits	**-**	**-**
Other Movements	**(3)**	**(2)**
Redemption	**-**	**-**
As at 31 December 2012	**645**	**710**
As at 1 January 2011	**2,069**	**2,133**
Tax Credits	18	18
Other Movements	(24)	(24)
Redemption	(1,415)	(1,415)
As at 31 December 2011	**648**	**712**

Included in other shareholders' equity are:

Issuance of capital notes which bear interest at rates fixed periodically in advance, based on London interbank rates. These notes are repayable in each case, at the option of the Bank, in whole on any interest payment date. The Bank is not obliged to make a payment of interest on its capital notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC.

32 Reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, net of the effects of hedging. Currency translation movements in 2012 of £1,578m (2011: £1,607m), including £259m (2011: £598m) associated with non-controlling interests, are largely due to the depreciation of the US Dollar and Rand against Sterling.

The impact of the currency translation reserve recognised in the income statement during the year was £24m (2011: £nil).

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.

The available for sale reserve increased £700m (2011: increased £1,212m), largely driven by £1,192m gains from changes in fair value (excluding non-controlling interests), £474m losses transferred to income statement due to fair value hedging, offset by £549m of gains transferred to the income statement including the disposal of BlackRock, Inc. and a £352m decrease due to the impact of current and deferred tax movements.

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.

The increase in the cash flow hedging reserve of £662m (2011: £1,263m increase) principally reflected £1,535m increase in the fair value of interest rate swaps held for hedging purposes partially offset by £695m gains transferred to net profit.

33 Non-controlling interests

	Profit attributable to Non-controlling interests		Equity attributable to Non-controlling interests	
	2012 £m	2011 £m	2012 £m	2011 £m
Absa Group Limited	304	401	2,737	2,861
Other non-controlling interests	35	29	119	231
Total	**339**	430	**2,856**	3,092

The decrease in Absa Group equity attributable to non-controlling interest to £2,737m (2011: £2,861m) is principally due to £247m depreciation of African currencies against Sterling and £194m of dividends paid, offset by retained profits of £304m.

Notes to the financial statements
Employee benefits

Employee benefits

The notes included in this section focus on the costs and commitments associated with employing our staff.

34 Staff costs

Accounting for staff costs
The Group applies IAS 19 *Employee benefits* in its accounting for most of the components of staff costs.

Short-term employee benefits - salaries, and accrued performance costs, social security and the Bank 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. No expense has been recognised in 2012 for the deferred bonuses granted in March 2013, as they are dependent upon future performance rather than performance during 2012.

The accounting policies for share based payments and pensions and other post retirement benefits are under Note 35 and Note 36 respectively.

	2012 £m	2011 £m
Performance costs	**2,425**	2,527
Salaries	**5,981**	6,277
Other share based payments	**105**	167
Social security costs	**685**	716
Post-retirement benefits	**590**	727
Total compensation costs	**9,786**	10,414
Bank payroll tax	**34**	76
Other	**627**	917
Non compensation costs	**661**	993
Staff costs	**10,447**	11,407

Total staff costs reduced 8% to £10,447m, principally reflecting a 5% reduction in salaries, a 19% reduction in post-retirement benefits and reductions in performance costs. Salaries reduced by 5% to £5,981m reflecting a moderately declining average headcount. The post-retirement benefits charge includes defined contribution charge of £311m (2011: £318m) and the defined benefit charge of £279m (2011: £409m). The post-retirement benefits charge decreased 19% to £590m, primarily reflecting scheme closures and benefit changes in the US and Spain, and lower interest cost for the UK Retirement Fund.

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.

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 to be recognised in 2013.

The average total number of persons employed by the Group including both continuing and discontinued operations was 143,700 (2011: 149,700).

35 Share based payments

Accounting for share based payments

The Group applies IFRS 2 *Share Based Payments* in accounting for employee remuneration in the form of shares.

Employee incentives include awards in the form of shares and share options, as well as offering employees the opportunity to purchase shares on favourable terms. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions such as continuing to make payments into a share based savings scheme.

The charge for the year arising from share based payment schemes was as follows:

	Charge for the year	
	2012	2011
	£m	£m
Share Value Plan	610	634
Executive Share Award Scheme	115	101
Others	58	137
Total equity settled	783	872
Cash settled	35	34
Total share based payments	**818**	906

The terms of the main current plans are as follows:

Share Value Plan (SVP)

The SVP was introduced in March 2010 and approved by shareholders (for Executive Director participation and use of new issue shares) at the AGM in April 2011. SVP awards are granted to participants in the form of a conditional right to receive Barclays PLC shares or provisional allocations of Barclays PLC shares which vest or are considered for release over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on release of a SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. From 2010, the portion of a business unit LTIP award that was previously granted under ESAS is normally granted under SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

Executive Share Award Scheme (ESAS)

ESAS awards were granted to participants in the form of a provisional allocation of Barclays PLC shares. The total value of the ESAS award made to the employee was dependent upon the business unit, Group and individual employee performance. The ESAS award must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and are considered for release upon achieving continued service for three and five years from the date of award. ESAS awards were also made to eligible employees for recruitment purposes under JSAP (Joiners Share Award Plan). All awards are subject to potential forfeiture if the individual resigns and commences work with a competitor business.

Other schemes

In addition to the above schemes, the Group operates a number of other schemes including schemes operated by and settled in the shares of subsidiary undertakings, none of which are individually or in aggregate material in relation to the charge for the year or the dilutive effect of outstanding share options. Included within other schemes are the Performance Share Plan, Incentive Share Plan, Sharesave, Sharepurchase, and the Barclays Long Term Incentive Plan which was introduced and approved at the AGM in April 2011.

Notes to the financial statements
Employee benefits

35 Share based payments (continued)
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	
	2012	2011	2012	2011
	£	£	£	£
SVP[a,b]	2.41	2.80	2.39	3.08
ESAS[a,c]	1.69	2.84	2.38	2.87
Others[a]	0.63 - 2.45	0.65 - 2.77	2.14 - 2.45	2.18 - 3.03

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] Number (000s)		ESAS[a,c] Number (000s)		Others[a,d] Number (000s)		Weighted average ex. price (£)	
	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding at beginning of year/acquisition date	392,638	226,842	252,028	383,483	214,363	175,253	1.93	2.80
Granted in the year	345,165	255,592	3,571	11,267	114,305	111,374	1.44	1.52
Exercised/released in the year	(170,672)	(77,315)	(153,425)	(117,126)	(60,150)	(18,164)	1.47	2.03
Less: forfeited in the year	(26,259)	(12,481)	(24,307)	(25,596)	(48,970)	(46,480)	1.76	2.59
Less: expired in the year	-	-	-	-	(18,572)	(7,620)	2.79	3.94
Outstanding at end of year	540,872	392,638	77,867	252,028	200,976	214,363	1.70	1.93
Of which exercisable:	29	-	20,178	25,025	20,302	20,424	3.21	2.78

Certain of the Group's share option plans enable certain directors and employees to subscribe for new ordinary shares of Barclays PLC.

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 6,317,134). The weighted average exercise price relates to Sharesave.

35 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:

	2012		2011	
	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	540,872	2	392,638
ESAS[a,c]	-	77,867	2	252,028
Others[a]	0-4	200,976	0 - 4	214,363

There were no significant modifications to the share based payments arrangements in the years 2012 and 2011.

As at 31 December 2012, the total liability arising from cash-settled share based payments transactions was £5m (2011: £12m).

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 2012 was 6.8 million (2011: 3.9 million). Dividend rights have been waived on all of these shares (2011: nil). The total market value of the shares held in trust based on the year end share price of £2.62 (2011: £1.74) was £17.8m (2011: £6.8m).

36 Pensions and post retirement benefits

Accounting for pensions and post retirement benefits

The Group operates a number of pension schemes including defined contribution and defined benefit as well as 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 and unrecognised actuarial gains or losses. 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.

The Group uses the option within IAS 19 *Employee Benefits* to defer actuarial gains and losses over the remaining service lives of the employees.

Actuarial gains and losses comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. Cumulative actuarial gains and losses, to the extent that they exceed the greater of: 10% of the fair value of the scheme assets or 10% of the present value of the defined benefit obligation, are deferred and the excess amortised in the income statement over the average service lives of scheme members. Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation, the fair value of the assets and any related unrecognised actuarial gain or loss and past service costs.

Where a scheme's assets and its unrecognised actuarial losses exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

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.

Future accounting development

From 1 January 2013, the Group will adopt IAS 19 revised. Had the Group adopted the revisions in these financial statements the net recognised position would reduce by £3.3bn (2011: £1.7bn) resulting in a liability of £1.3bn (2011: £0.2bn). Profit after tax for the period ended 31 December 2012 would have been lower by £22m (2011: £83m) and other comprehensive income lower by £2.4bn (2011: £1.2bn). Shareholders equity would have been reduced by £2.5bn (2011: £1.3bn) and additional deferred tax assets of £0.8bn (2011: £0.5bn) would have been recognised.

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.

Notes to the financial statements
Employee benefits

36 Pensions and post retirement benefits (continued)

Pension schemes

From 1 October 2012 a new UK pension scheme, the Barclays Pension Savings Plan (BPSP) was established to satisfy Auto Enrolment legislation. The BPSP is a defined contribution scheme providing benefits for all new UK employees, and all existing Investment Bank employees, along with all UK employees who were not members of a pension scheme as at 1 October 2012.

The UK Retirement Fund (UKRF) is the Group's main defined benefit scheme, representing approximately 93% of the Group's total retirement benefit obligations. The UKRF was closed to new entrants as at 1 October 2012, and comprises ten sections, the most significant of which are:

- Afterwork: comprising of a voluntary defined contribution element and a contributory cash balance defined benefit. The cash balance element is revalued until Normal Retirement Age in line with the increase in Retail Price Index (RPI) (maximum 5%). 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 UK employees outside of Investment Bank were eligible to join this section;

- The Pension Investment Plan (PIP): a defined contribution section providing benefits for Investment Bank employees from 1 July 2001 to 1 October 2012. This section was closed as at 1 October 2012 for existing and new Investment Bank employees. All PIP members now accrue benefits in the BPSP mentioned above; and

- 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 costs of ill-health retirements and death in service benefits are borne by the UKRF for Afterwork members, and through insured policies for BPSP members.

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 incorporated on 20 December 1990 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.

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: the amounts recognised in the income statement, an analysis of benefit obligations and an analysis of 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	2012 £m	2011 £m
Current service cost	**357**	348
Interest cost	**1,081**	1,154
Expected return on scheme assets	**(1,152)**	(1,176)
Recognised actuarial loss	**32**	57
Past service cost	**1**	23
Curtailment or settlements	**(40)**	3
Total	**279**	409

36 Pensions and post retirement benefits (continued)

Balance sheet reconciliation	2012			2011		
	The Group Total	The Bank Total	Of which relates to UKRF	The Group Total	The Bank Total	Of which relates to UKRF
The Group	£m		£m	£m		£m
Benefit obligation at beginning of the year	(22,994)	(21,679)	(21,263)	(21,801)	(20,535)	(20,173)
Current service cost	(357)	(317)	(309)	(348)	(309)	(300)
Interest cost	(1,081)	(1,013)	(992)	(1,154)	(1,071)	(1,053)
Past service cost	9	(1)	-	(23)	-	-
Actuarial (loss)	(1,930)	(1,809)	(1,768)	(569)	(460)	(418)
Benefits paid	779	701	690	802	697	684
Exchange and other movements	167	19	(3)	99	(1)	(3)
Benefit obligation at end of the year	(25,407)	(24,099)	(23,645)	(22,994)	(21,679)	(21,263)
Fair value of scheme assets at beginning of the year	22,748	21,762	21,540	18,905	17,783	17,621
Expected return on scheme assets	1,152	1,093	1,082	1,176	1,105	1,094
Employer contribution	840	766	742	2,220	2,162	2,128
Actuarial gain	236	181	167	1,419	1,476	1,470
Benefits paid	(779)	(701)	(690)	(802)	(697)	(684)
Exchange and other movements	(101)	-	4	(170)	(67)	(89)
Fair value of scheme assets at the end of the year	24,096	23,101	22,845	22,748	21,762	21,540
Net (deficit)/asset	(1,311)	(998)	(800)	(246)	83	277
Unrecognised actuarial losses	3,361	3,128	3,003	1,728	1,516	1,403
Net recognised asset	2,050	2,130	2,203	1,482	1,599	1,680
Recognised assets	2,303	2,276	2,203	1,803	1,708	1,680
Recognised liabilities	(253)	(146)	-	(321)	(109)	-
Net recognised asset	2,050	2,130	2,203	1,482	1,599	1,680

Included within the benefit obligation was £1,597m (2011: £1,560m) relating to overseas pensions and £165m (2011: £171m) relating to other post-retirement benefits. Included within the Bank's benefit obligation was £383m (2011: £345m) relating to overseas pensions and £73m (2011: £71m) relating to other post-retirement benefits. Of the total benefit obligation of £25,407m (2011: £22,994m), £326m (2011: £334m) was wholly unfunded. Out of the Bank's benefit obligations of £24,099m (2011: £22,994m) £133m (2011: £150m) were wholly funded.

As at 31 December 2012, the UKRF's IAS 19 scheme assets were in deficit versus obligations by £800m (2011: surplus of £277m). The most significant driver for this change was the fall in real corporate bond yields relative to inflation. This was partially offset by the deficit contribution of £500m paid in April 2012.

Notes to the financial statements
Employee benefits

36 Pensions and post retirement benefits (continued)

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	2012 % p.a.	2011 % p.a.
Discount rate	**4.31**	4.74
Inflation rate	**2.93**	3.04
Rate of increase in salaries	**3.43**	3.54
Rate of increase for pensions in payment	**2.88**	2.94
Rate of increase for pensions in deferment	**2.88**	2.94
Afterwork revaluation rate	**3.40**	3.47
Expected return on scheme assets	**n/a**	5.00

For 2012 the basis for deriving the discount rate assumption was revised. From December 2012, the rate is taken as the average of a liability-weighted rate derived from an AA corporate bond yield curve and the Towers Watson RATE link model. The impact of this change on the UKRF Defined Benefit Obligation was a £1.1bn decrease with no impact on the current year profit. The change will affect future years' profits and on an IAS 19 Revised basis, the change in estimate will result in a £50m reduced charge to the income statement, compared to if the Group had continued using last year's AA corporate bond yield curve. It is not possible to estimate the effect on profits after 2013.

The UKRF's post-retirement mortality assumptions are based on a best estimate assumption derived from an analysis in 2012 of Barclays own post-retirement mortality experience, which was carried out at the time of the latest triennial funding valuation, and taking account of recent evidence from published mortality surveys. An allowance has been made for future improvements in this observed rate of mortality based on the CMI (2010) Core Projection model with a 1% p.a. long term trend. 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	2012	2011
Life expectancy at 60 for current pensioners (years)		
- Males	**27.8**	27.7
- Females	**28.9**	28.8
Life expectancy at 60 for future pensioners currently aged 40 (years)		
- Males	**29.2**	29.1
- Females	**30.5**	30.4

Sensitivity analysis on actuarial assumptions

The following table shows a sensitivity analysis of the most material assumptions on the UKRF benefit obligation:

Change in key assumptions	Impact on UKRF benefit obligation	
	(Decrease)/ Increase %	(Decrease)/ Increase £bn
0.5 % increase in discount rate	**(9.1)**	**(2.2)**
0.5% increase in assumed price inflation	**8.4**	**2.0**
1 year increase to life expectancy at 60	**2.5**	**0.6**

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.

36 Pensions and post retirement benefits (continued)

The value of the assets of the schemes, their percentage in relation to total scheme assets, and their expected rate of return were as follows:

	The Group Total			The Bank Total			Of which relates to UKRF		
Analysis of scheme assets	Value £m	% of total fair value of scheme assets %	Expected rate of return %	Value £m	% of total fair value of scheme assets %	Expected rate of return %	Value £m	% of total fair value of scheme assets %	Expected rate of return %
As at 31 December 2012									
Equities	**6,360**	**26.4**	**n/a**	**5,871**	**25.5**	**n/a**	**5,783**	**25.3**	**n/a**
Bonds	**10,963**	**45.5**	**n/a**	**10,684**	**46.3**	**n/a**	**10,575**	**46.3**	**n/a**
Property	**1,244**	**5.2**	**n/a**	**1,230**	**5.3**	**n/a**	**1,228**	**5.4**	**n/a**
Derivatives	**1,637**	**6.8**	**n/a**	**1,637**	**7.1**	**n/a**	**1,637**	**7.2**	**n/a**
Cash	**3,240**	**13.4**	**n/a**	**3,147**	**13.6**	**n/a**	**3,118**	**13.6**	**n/a**
Other	**652**	**2.7**	**n/a**	**504**	**2.2**	**n/a**	**504**	**2.2**	**n/a**
Fair value of scheme assets	**24,096**	**100**	**n/a**	**23,073**	**100**	**n/a**	**22,845**	**100**	**n/a**
As at 31 December 2011									
Equities	4,979	21.9	7.8	4,534	20.8	7.7	4,452	20.7	7.7
Bonds	11,246	49.4	3.8	10,971	50.4	3.7	10,872	50.5	3.7
Property	1,389	6.1	6.2	1,357	6.2	6.1	1,356	6.3	6.1
Derivatives	1,296	5.7	-	1,296	6.0	-	1,296	6.0	-
Cash	3,253	14.3	0.6	3,173	14.6	0.5	3,167	14.7	0.5
Other	585	2.6	4.4	431	2.0	3.1	397	1.8	2.5
Fair value of scheme assets	22,748	100	5.1	21,762	100	4.9	21,540	100	5.0

Included within fair value of scheme assets were: £7m (2011: £15m) relating to shares in Barclays Group, £3m (2011: £12m) relating to bonds issued by the Barclays Group, and £1m (2011: £12m) relating to property occupied by Group companies. The UKRF also invests in pooled investment vehicles which may hold shares or debt issued by the Barclays Group. The UKRF scheme assets also includes £240m relating to UK private equity investments (2011: £50m) and £1,174m relating to overseas private equity investments (2011: £1,342m). These are disclosed above within Equities.

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums. The Group actual return on scheme assets was an increase of £1,385m (2011: £2,595m increase), of which £1,249m (2011: £2,564m) relates to UKRF. The Bank return on plan assets was an increase of £1,274m (2011: £2,581m increase).

The overall expected return on asset assumption has been based on the portfolio of assets created after allowing for the net impact of the derivatives on the risk and return profile of the holdings. As at 31 December 2012, the expected rate of return is not applicable due to the removal of the expected return on scheme assets under IAS 19 Revised, effective from 1 January 2013.

Approximately a third of the UK Retirement Fund 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 fund's assets to its liabilities. The swaps are used to reduce the scheme's inflation and duration risks against its liabilities.

Notes to the financial statements
Employee benefits

36 Pensions and post retirement benefits (continued)

Actuarial gains and losses

The actuarial gains and losses arising on scheme obligations and scheme assets are as follows:

Total actuarial gains and losses (The Group)	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of obligations	**(25,407)**	(22,994)	(21,801)	(20,646)	(15,783)
Fair value of scheme assets	**24,096**	22,748	18,905	16,700	14,496
Net (deficit) in the schemes	**(1,311)**	(246)	(2,896)	(3,946)	(1,287)
Experience gains and (losses) on scheme liabilities					
– amount	**13**	(57)	(216)	62	(177)
– as percentage of scheme liabilities	**-**	-	(1%)	-	(1%)
Experience gains and (losses) on scheme assets					
– amount	**236**	1,419	1,012	1,416	(4,655)
– as percentage of scheme assets	**1%**	6%	5%	8%	(32%)

Actuarial gains and losses (The Bank)	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of obligations	**(24,099)**	(21,679)	(20,535)	(19,524)	(14,735)
Fair value of scheme assets	**23,101**	21,762	17,783	15,810	13,697
Net (deficit)/surplus in the schemes	**(998)**	83	(2,752)	(3,714)	(1,038)
Experience gains and (losses) on scheme liabilities					
– amount	**45**	(33)	(209)	102	(177)
– as percentage of scheme liabilities	**-**	-	(1%)	1%	(1%)
Experience gains and (losses) on scheme assets					
– amount	**181**	1,476	999	1,411	(4,599)
– as percentage of scheme assets	**1%**	7%	6%	9%	(34%)

Actuarial gains and losses relating to UKRF	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of obligations	**(23,645)**	**(21,263)**	**(20,173)**	**(19,209)**	**(14,395)**
Fair value of scheme assets	**22,845**	**21,540**	**17,621**	**15,675**	**13,537**
Net (deficit)/surplus in the schemes	**(800)**	**277**	**(2,552)**	**(3,534)**	**(858)**
Experience gains and (losses) on scheme liabilities					
– amount	**29**	(34)	(207)	106	88
– as percentage of scheme liabilities	**-**	-	(1%)	1%	1%
Experience gains and (losses) on scheme assets					
– amount	**167**	1,470	995	1,424	(4,534)
– as percentage of scheme assets	**1%**	7%	6%	9%	(33%)

36 Pensions and post retirement benefits (continued)

Funding

The latest triennial funding valuation of the UKRF was carried out with an effective date of 30 September 2010, and showed a deficit of £5.0bn. In compliance with the Pensions Act 2004, the Bank and Trustee agreed a scheme-specific funding target, statement of funding principles, a schedule of contributions and a recovery plan to eliminate the deficit in the Fund.

The recovery plan to eliminate the deficit will result in the Bank paying deficit contributions to the Fund until 2021. 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 £0.65bn 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. Including deficit contributions, the Group's estimated contribution to the UKRF in 2013 will be £175m. Excluding the UKRF, the Group is expected to pay contributions of approximately £133m to UK schemes and £60m to overseas schemes in 2013.

The Scheme Actuary prepares an annual update of the funding position as at 30 September. The latest annual update was carried out as at 30 September 2012 and showed a deficit of £3.6bn.

Contributions paid with respect to the UKRF were as follows:

Contributions paid	£m
2012	742
2011	2,128

Notes to the financial statements
Scope of consolidation

Scope of consolidation

The notes included in this section focus on information on the Group's investments in subsidiaries, joint ventures and associates. Detail is also given on securitisation transactions the Group has entered into and arrangements that are held off-balance sheet.

37 Investment in subsidiaries

Accounting for investment in subsidiaries
In the individual financial statements of Barclays PLC, investments in subsidiaries are stated at cost less impairment, if any. Cost also includes directly attributable costs of the investment.

Investments in subsidiaries, the principal of which are engaged in banking related activities, are recorded on the balance sheet at historical cost less any impairment. At 31 December 2012 the historical cost of investments in subsidiaries was £19,370m (2011: £24,383m), and allowances recognised against these investments was £4,652m (2011: £2,310m) of impairment.

Details of the principal subsidiaries are set out below. This list includes those subsidiaries that are most significant in the context of the Group's business, results or financial position.

Country of registration or incorporation	Company name	Nature of business	Percentage of equity capital held (%)
England	Barclays Bank Trust Company Limited	Banking, asset management and trust services	100
England	Barclays Capital Securities Limited	Securities dealing	100
Isle of Man	Barclays Private Clients International Limited	Banking	100*
Japan	Barclays Securities Japan Limited	Securities dealing	100
Kenya	Barclays Bank of Kenya Limited	Banking	68.5*
South Africa	Absa Bank Limited	Banking	55.6*
Spain	Barclays Bank S.A.U.	Banking	100*
USA	Barclays Capital Inc.	Securities dealing	100
USA	Barclays Bank Delaware	US credit card issuer	100

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in subsidiaries held directly by Barclays Bank PLC are marked *. Information on the Group's subsidiaries, as required by the Companies Act, will be included in the Annual Return to be filed at the UK Companies House.

Although the Group's interest in the equity voting rights in certain entities listed below may exceed 50%, or it may have the power to appoint a majority of their Boards of Directors, they are excluded from consolidation because the Group either does not direct the financial and operating policies of these entities, or another entity has a controlling interest in them. Consequently, these entities are not controlled by Barclays:

Country of registration or incorporation	Name	Percentage of ordinary share capital held	Equity shareholders' funds	Retained profit for the year
		%	£m	£m
UK	Fitzroy Finance Limited	100	-	-
Cayman Islands	Palomino Limited	100	1	-

38 Investments in associates and joint ventures

Accounting for associates and joint ventures

Barclays applies IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures.* Associates are entities in which the Group has significant influence, but not control, over its operating and financial policies. Generally the Group holds more than 20%, but less than 50%, of their voting shares. Joint Ventures are entities whose activities are governed by a contractual arrangement between the Group and one or more parties to share equally in decisions regarding operating and financial policies.

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). 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.

	2012 £m	2011 £m
Investment in associates	**258**	169
Investment in joint ventures	**312**	258
Total	**570**	427

Summarised financial information for the Group's associates and joint ventures is set out below. The amounts shown are assets, liabilities and net income of the investees, not just the Group's share, as at and for the year ended 31 December 2012 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.

	2012		2011	
	Associates £m	Joint ventures £m	Associates £m	Joint ventures £m
Total assets	**3,580**	**3,740**	4,001	3,447
Total liabilities	**2,816**	**3,205**	3,603	2,938
Profit after tax	**137**	**168**	45	88

The Group's share of commitments and contingencies of its associates and joint ventures was comprised of insurance guarantees of £nil (2011: £nil) and unutilised credit facilities provided to customers of £2,711m (2011: £1,265m). These are included in Note 27.

39 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 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.

Notes to the financial statements
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39 Securitisations (continued)
A summary of the main transactions, the assets and liabilities and the financial risks arising from these transactions is set out below:

Transfers of financial assets that do not result in derecognition
Securitisations
The Group was party to securitisation transactions involving its residential mortgage loans, business loans and credit card balances. In addition, the Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions.

In these transactions, the assets, interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, which then issues interest bearing debt securities to third-party investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction. Partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets can also occur or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer.

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:

	2012				2011	
	Assets		Liabilities		Assets	Liabilities
	Carrying amount £m	Fair Value £m	Carrying amount £m	Fair Value £m	Carrying amount £m	Carrying amount £m
The Group						
Loans and advances to customers						
Residential mortgage loans	5,545	5,129	(5,066)	(4,600)	7,946	(8,085)
Credit cards, unsecured and other retail lending	6,944	7,015	(5,519)	(5,542)	4,059	(3,477)
Corporate loans	944	798	(809)	(679)	1,391	(1,428)
Total	13,433	12,942	(11,394)	(10,821)	13,396	(12,990)
Assets designated at fair value through profit or loss						
Retained interest in residential mortgage loans	12	n/a	-	n/a	1	-
The Bank						
Loans and advances to customers						
Residential mortgage loans	3,503	3,280	(3,028)	(3,073)	6,230	(6,477)
Credit cards, unsecured and other retail lending	5,866	5,921	(5,561)	(5,493)	3,913	(3,325)
Corporate loans	1,287	1,119	(1,109)	(956)	1,787	(1,843)
Total	10,656	10,320	(9,698)	(9,522)	11,930	(11,645)
Assets designated at fair value through profit or loss						
Retained interest in residential mortgage loans	-	n/a	-	n/a	1	-

Balances included within loans and advance to customers represent securitisations where substantially all the risks and rewards of the asset have been retained by the Group.

The relationship between the transferred assets and the associated liabilities is that holders of notes may only look to cash flows from the securitised assets for payments of principal and interest due to them under the terms of their notes, although the contractual terms of their notes may be different to the maturity and interest of the transferred assets.

Retained interests in residential mortgage loans are securities which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets. The carrying amount of the loans before transfer was £16m (2011: £2,299m). 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.

39 Securitisations (continued)

For transfers of assets in relation to repurchase agreements, see Notes 21 and 41.

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:

	Continuing involvement as at 31 December 2012			Gain/(loss) from continuing involvement	
Type of transfer	Carrying amount	Fair value	Maximum exposure to loss	For the year ended 31 December 2012	Cumulative to 31 December 2012
	£m	£m	£m	£m	£m
CLO and Other assets	2,546	2,495	2,556	126	(839)
ABS CDO Super Senior	1,387	922	1,387	(230)	(1,708)
US sub-prime and Alt-A	781	781	781	8	(1,336)
Commercial Mortgaged Backed Securities	239	239	239	1	(41)
Total	4,953	4,437	4,963	(95)	(3,924)

Assets which represent the Group's continuing involvement in derecognised assets are recorded in the following line items:

Type of transfer	Loans and Advances	Trading portfolio assets	Derivatives	Available for sale investments	Total
	£m	£m	£m	£m	£m
CLO and other assets	1,624	899	7	16	2,546
ABS CDO super senior	1,387	-	-	-	1,387
US sub-prime and Alt-A	703	78	-	-	781
Commercial mortgage backed securities	-	239	-	-	239
Total	3,714	1,216	7	16	4,953

40 Off-balance sheet arrangements

In the ordinary course of business and primarily to facilitate client transactions, the Group enters into transactions which may involve the use of off-balance sheet arrangements and special purpose entities (SPEs). These arrangements include the provision of guarantees, loan commitments, retained interests in assets which have been transferred to an unconsolidated SPE or obligations arising from the Group's involvements with such SPEs.

Guarantees

The Group issues guarantees on behalf of its customers. In the majority of cases, the Group will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, the Group issues guarantees on its own behalf. The main types of guarantees provided are: financial guarantees given to banks and financial institutions on behalf of customers to secure loans; overdrafts; and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of contingent liabilities with off-balance sheet risk is set out in Note 27.

Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period or are cancellable by the Group subject to notice conditions. Information on loan commitments and similar facilities is set out in Note 27.

Notes to the financial statements
Scope of consolidation

40 Off-balance sheet arrangements (continued)

Leasing

The Group leases various offices, branches, other premises and equipment 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. Information on leasing can be found in Note 19.

Special Purpose Entities (SPEs)

SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The Group's transactions with SPEs take a number of forms, including:

- the provision of financing to fund asset purchases, or commitments to provide finance for future purchases;
- derivative transactions to provide investors in the SPE with a specified exposure;
- the provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties; and
- direct investment in the notes issued by SPEs.

A number of the Group's transactions have recourse only to the assets of unconsolidated SPEs. Typically, the majority of the exposure to these assets is borne by third parties and the Group's risk is mitigated through over-collateralisation, unwind features and other protective measures.

The business activities within the Group where SPEs are used include multi-seller conduit programmes, asset securitisations, client intermediation, credit structuring, asset realisations and fund management. These activities are described below. In addition, later sections provide quantitative information on the Group's involvements with CDOs, SIVs, SIV-Lites and conduits.

Multi-seller conduit programmes

Barclays creates, administers and provides liquidity and credit enhancements to several commercial paper conduit programmes, primarily in the United States. These conduits provide clients access to liquidity in the commercial paper markets by allowing them to sell consumer or trade receivables to the conduit, which then issues commercial paper to investors to fund the purchase. The conduits have sufficient collateral, credit enhancements and liquidity support to maintain an investment grade rating for the commercial paper.

Asset securitisations

The Group has assisted its customers with the formation of asset securitisations, some of which are effected through the use of SPEs. These entities have minimal equity and rely on funding in the form of notes to purchase the assets for securitisation. As these SPEs are created for other companies, The Group does not usually control these entities and therefore does not consolidate them. The Group may provide financing in the form of senior notes or junior notes and may also provide derivatives to the SPE. These transactions are included on the balance sheet.

The Group has also used SPEs to securitise part of its originated and purchased retail and commercial lending portfolios and credit card receivables. These SPEs are usually consolidated and derecognition only occurs when the Group transfers 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. The carrying amount of securitised assets together with the associated liabilities are set out in Note 39.

Client intermediation

The Group has structured transactions as a financial intermediary to meet investor and client needs. These transactions involve entities structured by either the Group or the client and are used to modify cash flows of third party assets to create investments with specific risk or return profiles or to assist clients in the efficient management of other risks. Such transactions will typically result in a derivative being shown on the balance sheet, representing the Group's exposure to the relevant asset. The Group also invests in lessor entities specifically to acquire assets for leasing. Client intermediation also includes arrangements to fund the purchase or construction of specific assets (most common in the property industry).

Credit structuring

The Group structures investments to provide specific risk profiles to investors. This may involve the sale of credit exposures, often by way of derivatives, to an entity which subsequently funds those exposures by issuing securities. These securities may initially be held by Barclays prior to sale outside of the Group.

Asset realisations

The Group establishes SPEs to facilitate the recovery of loans in circumstances where the borrower has suffered financial loss.

To the extent that there are guarantees and commitments in relation to SPEs the details are included in Note 27.

40 Off-balance sheet arrangements (continued)

Collateralised debt obligations (CDOs)

The Group has structured and underwritten CDOs. At inception, the Group's exposure principally takes the form of a liquidity facility provided to support future funding difficulties or cash shortfalls in the vehicles. If required by the vehicle, the facility is drawn with the amount advanced included within loans and advances on the balance sheet. Upon an event of default or other triggering event, the Group may acquire control of a CDO and, therefore, be required to fully consolidate the vehicle for accounting purposes. The potential for transactions to hit default triggers before the end of 2012 has been assessed and is included in the determination of an impairment charge of £232m (2011: £6m) in relation to ABS CDO Super Senior and other credit market exposures for the year ended 31 December 2012.

The Group's exposure to ABS CDO Super Senior positions before hedging was £1,387m as at 31 December 2012 (2011: £1,842m), equivalent to an aggregate 60.30% (2011: 51.68%) decline in value on average for all investors. This represents The Group's exposure to High Grade CDOs, stated net of write downs and charges. These facilities are fully drawn and included within loans and advances on the balance sheet.

Collateral

The collateral underlying unconsolidated CDOs comprised 78% (2011: 78%) residential mortgage backed securities, 2% (2011: 2%) non-residential asset backed securities and 20% (2011: 20%) in other categories (a proportion of which will be backed by residential mortgage collateral). The remaining Weighted Average Life (WAL) of all collateral is 6.16 years (2011: 7.41 years). The combined Net Asset Value (NAV) for all of the collateral underlying the CDOs was £1bn (2011: £1bn).

Funding

The CDOs were funded with senior unrated notes and rated notes up to AAA. The capital structure senior to the AAA notes on cash CDOs was supported by a liquidity facility provided by the Group. The senior portion covered by liquidity facilities is on average 85% (2011: 82%) of the capital structure. The initial WAL of the notes in issue averaged 6.7 years (2011: 6.7 years). The full contractual maturity is 38.2 years (2011: 38.2 years).

Interests in third party CDOs

The Group has purchased securities in and entered into derivative instruments with third party CDOs. These interests are held as trading assets or liabilities on the Group's balance sheet and measured at fair value. The Group has not provided liquidity facilities or similar agreements to third party CDOs.

Structured investment vehicles (SIVs)

The Group does not structure or manage SIVs. Group exposure to third party SIVs comprised: £nil (2011: £nil) of senior liquidity facilities and derivative exposures included on the balance sheet at their net fair value of £nil (2011: £6m).

SIV-Lites

The Group does not have any exposure to a SIV-Lite transactions nor is it involved in its ongoing management thereof.

Commercial paper and medium-term note conduits

The Group provided £7bn (2011: £14bn) in undrawn backstop liquidity facilities to its own sponsored CP conduits. The Group fully consolidates these entities such that the underlying assets are reflected on The Group balance sheet. These consolidated entities in turn provide facilities of £661m (2011: £717m) to third party conduits containing prime UK buy-to-let Residential Mortgage Backed Securities (RMBS) assets. As at 31 December 2012, the entire facility had been drawn and is included in available for sale financial investments.

The Group provided backstop facilities to support the paper issued by one third party conduit. This facility totalled £247m (2011: £259m), with underlying collateral comprising 100% auto loans. There were no drawings on this facility as at 31 December 2012.

The Group provided backstop facilities to five third party SPEs that fund themselves with medium-term notes. These notes are sold to investors as a series of 12-month securities and remarketed to investors annually. If investors decline to renew their holdings at a price below a pre-agreed spread, the backstop facility requires the Group to purchase the outstanding notes at scheduled maturity. The Group has provided facilities of £0.5bn (2011: £0.9bn) to SPEs holding prime UK and Australian owner-occupied RMBS assets. As at the balance sheet date these facilities had been drawn and were included in loans and advances.

Notes to the financial statements
Scope of consolidation

41 Assets pledged
Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to derivatives. The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	The Group		The Bank	
	2012	2011	2012	2011
	£m	£m	£m	£m
Trading portfolio assets	**85,026**	86,677	**37,339**	50,354
Loans and advances	**72,918**	40,613	**51,986**	38,729
Other	**20,789**	19,976	**14,782**	17,203
Assets pledged	**178,733**	147,266	**104,107**	106,286

Barclays has an additional £15bn (2011: £16bn) of loans and advances within its asset backed funding programmes that can readily be used to raise additional secured funding and is available to support future issuance.

Collateral held as security for assets
Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, the Group is allowed to resell or re-pledge the collateral held. The fair value at the balance sheet date of collateral accepted and re-pledged to others was as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	£m	£m	£m	£m
Fair value of securities accepted as collateral	**360,061**	391,287	**312,754**	419,462
Of which fair value of securities re-pledged/transferred to others	**307,950**	341,060	**265,553**	334,527

The full disclosure as per IFRS7 has been included in collateral and other credit enhancements (page 26-29).

Notes to the financial statements
Other disclosure matters

Other disclosure matters

The notes included in this section focuses on related party transactions, and directors' remuneration. Related party transactions include any subsidiaries, associates, joint ventures, entities under common directorships and Key Management Personnel.

42 Related party transactions and Directors' remuneration

a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes, as well as other persons.

(i) The Group

Parent company

The parent company, which is also the ultimate parent company, is Barclays PLC, which holds 100% of the issued ordinary shares of Barclays Bank PLC.

Subsidiaries

Transactions between Barclays Bank PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group financial statements. A list of the Group's principal subsidiaries is shown in Note 37.

Associates, joint ventures and other entities

The Group provides banking services to its associates, joint ventures, the Group pension funds (principally the UK Retirement Fund) and to entities under common directorships, providing loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. Group companies also provide investment management and custodian services to the Group pension schemes. The Group also provides banking services for unit trusts and investment funds managed by Group companies and are not individually material. 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 38.

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[a]	Joint ventures	Entities under common directorships[a]	Pension funds, unit trusts and investment funds
	£m	£m	£m	£m
For the year ended and as at 31 December 2012				
Income	**2**	**38**	**1**	**20**
Impairment	**-**	**(5)**	**-**	**-**
Total Assets	**170**	**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 2012 or 2011. Derivatives transacted on behalf of the Pensions Funds Unit, Trusts and Investment Funds were £661.1m (2011: £568.9m)[a].

Note

a The 2011 liability balances for related party transactions with associates and entities under common directorship have been restated by £10m and £42m respectively to more appropriately reflect the nature of the relationships with two specific entities.

Notes to the financial statements
Other disclosure matters

42 Related party transactions and Directors' remuneration (continued)
(ii) The Bank

Subsidiaries

Details of principal subsidiaries are shown in Note 37.

The Bank provides certain banking and financial services to subsidiaries as well as a number of normal current and interest bearing cash accounts to the Group pension funds (principally the UK Retirement Fund) in order to facilitate the day to day financial administration of the funds.

Group companies also provide investment management and custodian services. The Bank also provides normal banking services for unit trusts and investment funds managed by Group companies. These transactions are conducted on similar terms to third-party transactions and are not individually material.

In aggregate, amounts included in the accounts are as follows:

	Subsidiaries £m	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds, unit trusts and investment funds £m
For the year ended and as at 31 December 2012					
Total Assets	**336,363**	**170**	**1,657**	**198**	**-**
Total Liabilities	**283,095**	**18**	**585**	**94**	**152**
For the year ended and as at 31 December 2011					
Total Assets	327,898	176	1,529	364	-
Total Liabilities	349,205	26	454	70	182

It is the normal practice of the Bank to provide its subsidiaries with support and assistance by way of guarantees, indemnities, letters of comfort and commitments, as may be appropriate, with a view to enabling them to meet their obligations and to maintain their good standing, including commitment of capital and facilities. For dividends paid to Barclays PLC see Note 11.

Key Management Personnel

The Group's Key Management Personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank PLC (directly or indirectly) and comprise the Directors of Barclays Bank PLC and the Officers of the Group (listed on page 6), certain direct reports of the Group Chief Executive and the heads of major business units.

There were no material related party transactions with Entities under common directorship where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

The Group provides banking services to Directors and other Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding at 31 December 2012 were as follows:

Loans outstanding[a]	2012 £m	2011 £m
As at 1 January	**6.3**	6.3
Loans issued during the year	**0.6**	0.7
Loan repayments during the year	**(0.7)**	(0.7)
As at 31 December	**6.2**	6.3

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person) in 2012 or 2011.

Deposits outstanding[a]	2012 £m	2011 £m
As at 1 January	**39.1**	36.5
Deposits received during the year	**142.1**	244.2
Deposits repaid during the year	**(143.8)**	(241.6)
As at 31 December	**37.4**	39.1

Note

a Loan and deposit balances held with Directors and Key Management Personnel have been restated to more appropriately reflect the nature of certain transactions. The impact of this has been to increase the 2011 opening and closing loan balance previously reported by £1.5m and to increase the 2011 opening and closing deposit balances by £1.5m and £0.4m respectively.

42 Related party transactions and Directors' remuneration (continued)

All loans to Directors and other Key Management Personnel (and persons connected to them) (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features; with the exception of £4,080 (2011: £3,465) provided on an interest free basis.

The loan of £4,080 (2011: £3,465) provided on an interest free basis was granted to a non-Director member of Barclays key management to purchase commuter rail tickets. The maximum loan outstanding during the year was £4,896 (2011: £4,620). Commuter rail ticket loans are provided to all Barclays staff members upon request on the same terms.

Total Commitments outstanding

Total commitments outstanding refer to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to Directors and key management personnel. Total commitments outstanding as at 31 December 2012 were £2.5m (2011: £1.5m).

Remuneration of Directors and other Key Management Personnel

Total remuneration awarded to Directors and other Key Management Personnel below represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest payround decisions and is consistent with the approach adopted for disclosures set out on pages 225 to 226. Costs recognised in the income statement reflect the accounting charge for the year included within operating expenses. The difference between the values awarded and the recognised income statement charge principally relates to the recognition of deferred costs for prior year awards. Figures are provided for the period that individuals met the definition of Directors and other Key Management Personnel.

Remuneration of Directors and other key management personnel	2012 £m	2011 £m
Salaries and other short term benefits	**20.4**	21.1
Pension costs	**0.4**	0.4
Other long-term benefits	**17.9**	39.1
Share-based payments	**24.6**	33.7
Employer social security charges on emoluments	**8.0**	9.1
Costs recognised for accounting purposes	**71.3**	103.4
Employer social security charges on emoluments	**(8.0)**	(9.1)
Share-based payment awards - difference between awards granted and costs recognised	**(12.0)**	(17.7)
Other long term benefits - difference between awards granted and costs recognized	**(13.4)**	(14.2)
Total remuneration awarded	**37.9**	62.4

b) Disclosure required by the Companies Act 2006

The following information is presented in accordance with the Companies Act 2006:

Directors' remuneration	2012 £m	2011 £m
Aggregate emoluments	**5.5**	15.9
Gains made on the exercise of share options	**-**	-
Amounts paid under long-term incentive schemes	**2.8**	5.8
Total Directors' remuneration	**8.3**	21.7

There were no pension contributions paid to defined contribution schemes on behalf of Directors. There were no notional pension contributions to defined contribution schemes (2011: £nil).

As at 31 December 2012, there were no Directors accruing benefits under a defined benefit scheme (2011: £nil).

Notes to the financial statements
Other disclosure matters

42 Related party transactions and Directors' remuneration (continued)

Of the figures in the table above, the amounts attributable to the highest paid Director are as follows:

	2012 £m	2011 £m
Aggregate emoluments	**1.0**	10.9
Amounts paid under long-term incentive schemes	**2.8**	5.5

There were no actual pension contributions paid to defined contribution schemes (2011: £nil). There were no notional pension contributions to defined contribution schemes in 2012 or 2011.

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 2012 to persons who served as Directors during the year was £0.3m (2011:£nil). The total value of guarantees entered into on behalf of Directors during 2012 was £nil (2011:£0.2m).

43 Financial risks, liquidity and capital management

The disclosures required under IFRS relating to financial risks and capital resources have been included within the Risk management and governance section on pages 11 to 95.

This move has been to improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication. The relevant disclosures have been marked as audited and can be found as follows:

- credit risk, on pages 23 to 59;
- market risk, on pages 60 to 64;
- liquidity risk pages 71 to 95; and
- capital resources, on page 66-70.

44 Events after the balance sheet date

Strategic Review
On 12 February 2013, Barclays announced the outcome of its Strategic Review and set out certain commitments based on the results of the review.

The commitments are expected to result in:

- a restructuring charge of approximately £500m in the first quarter of 2013 relating to a reduction in headcount across the Group; and
- costs associated with implementing the strategic plan of approximately £1bn in 2013, £1bn in 2014 and £0.7bn in 2015.

Exercise of Warrants
On 13 February 2013, Barclays PLC and Barclays Bank PLC entered into an agreement with Deutsche Bank AG and Goldman Sachs International (the Warrantholders) pursuant to which the Warrantholders agreed to exercise in aggregate 379,218,809 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. As a consequence of this agreement no other Warrants will remain outstanding.

As a consequence of the exercise of the Warrants, Barclays PLC received £750 million of Core Tier 1 equity capital, equivalent to an additional pro forma 19bps on its full year 2012 Core Tier 1 Ratio of 10.9%.

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 £743.7 million of Core Tier 1 equity capital.

The transaction involved the payment of an aggregate £6.3 million Warrant Exercise Payment by Barclays Bank PLC to the Warrantholders, in respect of the early exercise of the Warrants.