How we comply

Training and development

In order to continue to contribute effectively to Board and Board Committee meetings, Directors are regularly provided with the opportunity to take part in ongoing training and development and can also request specific training that we may consider necessary or useful. As part of our annual performance review with the Chairman, we discuss any particular development needs that can be met through either formal training or meeting with a particular senior executive. In 2017, Directors received ongoing training in relation to legal and regulatory developments, including in relation to the requirements of, and responsibilities under, the UK Senior Managers Regime.

Conflicts of interest

In accordance with the Companies Act 2006 and the Articles of Association the Board has the authority to authorise conflicts of interest. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Group. The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts, together with any Board authorisation of the conflict. The authorisations are for an indefinite period but are reviewed annually by the Board Nominations Committee, which also considers the effectiveness of the process for authorising Directors' conflicts of interest. The Board retains the power to vary or terminate the authorisation at any time.

Information provided to the Board

The Role Profile for the Chairman, as set out in our *Charter of Expectations*, confirms his responsibility for ensuring that members of the Board receive accurate, timely and high-quality information. In particular, we require information about Barclays' performance to enable us to take sound decisions, monitor effectively and provide advice to promote the success of the Company. Working in collaboration with the Chairman, the Company Secretary is responsible for ensuring good governance and consults Directors to ensure that good information flows exist and that the Board receives the information it requires in order to be effective.

Throughout the year both the executive Directors and senior executives keep the Board informed of key developments in the business through regular reports and updates. These are in addition to the presentations that the Board and Board Committees receive as part of their formal meetings. Directors are able to seek independent and professional advice at Barclays' expense, if required, to enable Directors to fulfil their obligations as members of the Board.

Accountability

Risk management and internal control

The Directors are responsible for ensuring that management maintains an effective system of risk management and internal control and for assessing its effectiveness. Such a system is designed to identify, evaluate and manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Barclays is committed to operating within a strong system of internal control that enables business to be transacted and risk taken without exposing itself to unacceptable potential losses or reputational damage. Barclays has an overarching framework that sets out the Group's approach to internal governance, *The Barclays Guide*, which establishes the mechanisms and processes by which management implements the strategy set by the Board to direct the organisation, through setting the tone and expectations from the top, delegating its authority and assessing compliance.

A key component of *The Barclays Guide* is the Enterprise Risk Management Framework (ERMF). The purpose of the ERMF is to identify and set minimum requirements in respect of the main risks to achieving the Group's strategic objectives and to provide reasonable assurance that internal controls are effective. The key elements of the Group's system of internal control, which is aligned to the recommendations of *The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework* (2013 COSO), are set out in the risk control frameworks relating to each of the Group's Principal Risks. As well as incorporating our internal requirements, these reflect material Group-wide legal and regulatory requirements relating to internal control and assurance.

Effectiveness of internal controls

Key controls are assessed on a regular basis for both design and operating effectiveness. Issues arising out of business risk and control assessments and other internal and external sources are examined to identify pervasive themes. Where appropriate, control issues are reported to the Board Audit Committee (BAC). In addition, the BAC receives regular reports from management, BIA and the Finance, Compliance and Legal functions covering, in particular, financial controls, compliance and other operational controls.

Risk management and internal control framework

The ERMF is the Group's internal control framework, which is refreshed annually. There are eight Principal Risks under the ERMF: Credit risk, Market risk, Treasury and capital risk, Operational risk, Model risk, Reputation risk, Conduct risk and Legal risk.

The BAC formally reviews the system of internal control and risk management annually. Throughout the year ended 31 December 2017 and to date, the Group has operated a system of internal control that provides reasonable assurance of effective operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the Principal Risks facing the Group in accordance with the *'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'* published by the Financial Reporting Council.

The review of the effectiveness of the system of risk management and internal control is achieved through a four-step approach which is centred on reviewing the effectiveness of *The Barclays Guide* and its component parts:

1. Control meetings of the business and functional executive committees monitor, review and challenge the effective operation of key risk management and control processes, including the results of audits and reviews undertaken by BIA (which include assessments of the control environment and management control approach) and examinations and assessments undertaken by our primary regulators, on an ongoing basis as part of the system of risk management and internal control. The remediation of issues identified within the control environment is regularly monitored by management and the BAC.
2. Testing of the control meetings, held by the executive committees, provides assurance that the committees are effectively overseeing the control environment and associated risk management and internal control processes.
3. The owners of the key governance processes which comprise *The Barclays Guide* undertake a review to confirm that processes have been implemented.
4. The annual review of the system of risk management and internal control brings together the results of the activities completed in steps 1 to 3 to ensure that each of the key processes have been effectively reviewed.

Contents

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

Barclays' risk disclosures are provided in the Annual Report and in the Barclays PLC Pillar 3 Report 2017.

Risk management

Overview of Barclays' approach to risk management. A detailed overview together with more specific information on policies that the Group determines to be of particular significance in the current operating environment can be found in Barclays PLC Pillar 3 Report 2017 or at Barclays.com

Material existing and emerging risks

Insight into the level of risk across our business and portfolios, the material existing and emerging risks and uncertainties we face and the key areas of management focus.

Principal Risk management

Barclays' approach to risk management for each Principal Risk with focus on organisation and structure and roles and responsibilities.

Risk performance

IFRS 7 disclosure requirements

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

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

Strategic report
Governance
Risk review
Financial review
Financial statements
Shareholder information

Group, could result in the Group being required to enhance its capital position, limit capital distributions or position additional capital in specific subsidiaries. For more information on stress testing, please see Supervision and regulation on page 200.

- The introduction and implementation of both PSD2 and the Open API standards and data sharing remedy imposed by the UK Competition and Markets Authority following its Retail Banking Market Investigation Order (together 'Open Banking') from January 2018 is anticipated to transform the traditional UK banking model and conventional relationship between a customer and their bank. It will do this by providing customers with the ability to share their transactional data with authorised third party service providers either for aggregation or payment services. It is anticipated that these aggregation or payment services will be offered by third parties to Barclays' customers. Members of the Barclays Group will be able to offer these same services to customers of other banks. A failure to comply with Open Banking requirements could expose Barclays to regulatory sanction, potential financial loss and reputational detriment. While Open Banking will affect the Group as a whole, the impact is likely to be particularly relevant for Barclays UK.

v) Certain potential consequences of ring-fencing to Barclays Bank PLC

In connection with the planned implementation in the first half of 2018 of ring-fencing certain of the Group's UK businesses, Barclays Bank PLC will transfer what are materially the assets and business of the Barclays UK division to another subsidiary of the Group, Barclays Bank UK PLC. Senior management expects that upon this transfer, the material risks with respect to the Barclays Bank PLC Group will be the same in all material respects as those risks with respect to the Group. However, senior management has identified certain potential differences in risks with respect to the Barclays Bank PLC Group as compared to risks to the Group.

The transfer of the assets and liabilities of the Barclays UK division from Barclays Bank PLC will mean that the Barclays Bank PLC Group will be less diversified than the Group as a whole. Barclays Bank PLC will not be the parent of Barclays Bank UK PLC and thus will not have recourse to the assets of Barclays Bank UK PLC. Relative to the Group, the Barclays Bank PLC Group will be, among other things:

- more focused on businesses outside the UK, particularly in the US, and thus more exposed to the US economy and more affected by movements in the US Dollar (and other non-Sterling currencies) relative to Sterling, with a relatively larger portion of its business exposed to US regulation
- more focused on wholesale businesses, such as corporate and investment banking and capital markets, which expose Barclays Bank PLC Group to a broader range of market conditions and to counterparty and operational risks and thus the financial performance of Barclays Bank PLC may be subject to greater fluctuations relative to that of the Group as a whole or that of the ring-fenced bank
- more dependent on wholesale funding sources, as the UK retail deposit base will be transferred to the ring-fenced bank. The UK retail mortgage assets will also be transferred to the ring-fenced bank, which reduces Barclays Bank PLC's access to funding sources reliant on residential mortgage collateral. The Barclays Bank PLC Group may therefore experience more difficult financing conditions and/or higher costs of funding including in situations of stress. As a result of the implementation of ring-fencing, different Group entities, such as Barclays Bank PLC, may be assessed differently by credit rating agencies, which may result in different, and possibly more negative, assessments of Barclays Bank PLC's credit and thus in lower credit ratings than the credit ratings of the Group, which in turn could adversely affect the sources and costs of funding for Barclays Bank PLC
- potentially subject to different regulatory obligations, including different liquidity requirements and capital buffers.

As a result of any or all of the foregoing, implementation of ring-fencing may adversely affect the market value and/or liquidity of securities issued by Barclays Bank PLC.

Material existing and emerging risks impacting individual Principal Risks

i) Credit risk

a) Impairment

The introduction of the impairment requirements of *IFRS 9 Financial Instruments*, implemented on 1 January 2018, results in higher impairment loss allowances that are recognised earlier, on a more forward looking basis and on a broader scope of financial instruments than is the case under IAS 39 and, as a result, will have a material impact on the Group's financial condition. Measurement involves increased complex judgement and impairment charges will tend to be more volatile. Unsecured products with longer expected lives, such as revolving credit cards, are the most impacted. The capital treatment on the increased reserves has the potential to adversely impact regulatory capital ratios. In addition, the move from incurred to expected credit losses has the potential to impact the Group's performance under stressed economic conditions or regulatory stress tests. For more information please refer to Note 1 on pages 241 to 246.

b) Specific sectors

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

- **UK real estate market.** With UK property representing a significant portion of the overall UK Corporate and Retail credit exposure, the Group is at risk from a fall in property prices in both the residential and commercial sectors in the UK.

  Strong house price growth in London and the south-east of the UK, fuelled by foreign investment, strong buy-to-let (BTL) demand and subdued housing supply, has resulted in affordability metrics becoming stretched. Average house prices as at the end of 2017 were more than 5.6 times average earnings.
- **Large single name losses.** The Group has large individual exposures to single name counterparties both in its lending activities and in its financial services and trading activities, including transactions in derivatives and transactions with brokers, central clearing houses, dealers, other banks, mutual and hedge funds and other institutional clients. The default of such counterparties could have a significant impact on the carrying value of these assets. In addition, where such counterparty risk has been mitigated by taking collateral, credit risk may remain high if the collateral held cannot be realised, or has to be liquidated at prices which are insufficient to recover the full amount of the loan or derivative exposure. Any such defaults could have a material adverse effect on the Group's results due to, for example, increased credit losses and higher impairment charges.
- **Leverage finance underwriting.** The Group takes on sub-investment grade underwriting exposure, including single name risk, particularly in the US and Europe. The Group is exposed to credit events and market volatility during the underwriting period. Any adverse events during this period may potentially result in loss for the Group, mainly through Barclays International, or an increased capital requirement should there be a need to hold the exposure for an extended period.

ii) Market risk

Market volatility

Elevated market volatility, which can be triggered and/or aggravated by disappointment in economic data, divergent monetary policies, political uncertainty or conflicts, would likely entail a significant deflation of assets which in turn may put under strain counterparties and have knock-on effects on the bank.

In addition, the Group's trading business is generally exposed to a prolonged period of elevated asset price volatility, particularly if it negatively affects the depth of marketplace liquidity. Such a scenario could impact the Group's ability to execute client trades and may also result in lower client flow-driven income and/or market-based losses on its existing portfolio of market risks. These can include having to absorb higher hedging costs from rebalancing risks that need to be managed dynamically as market levels and their associated volatilities change.