# Risk review

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 management strategy

This section introduces the Group's approach to managing and identifying risks, and for fostering a sound risk culture.

### Enterprise Risk Management Framework (ERMF)

The ERMF outlines the highest level principles for risk management by setting out standards, objectives and key responsibilities of different groups of employees of the Group.

It is approved by the Barclays PLC Board on recommendation of the Group Board Risk Committee and the Group Chief Risk Officer.

The ERMF sets out:

- principal risks faced by the Group, which guide the organisation of risk management processes
- risk appetite requirements. This helps define the level of risk we are willing to undertake in our business
- risk management and segregation of duties: The ERMF defines a Three Lines of Defence model
- roles and responsibilities for key risk management and governance: The accountabilities of the Group CEO, Group CRO and other senior managers, as well as an overview of Barclays PLC committees.

The ERMF is complemented by frameworks, policies and standards which are mainly aligned to individual principal risks:

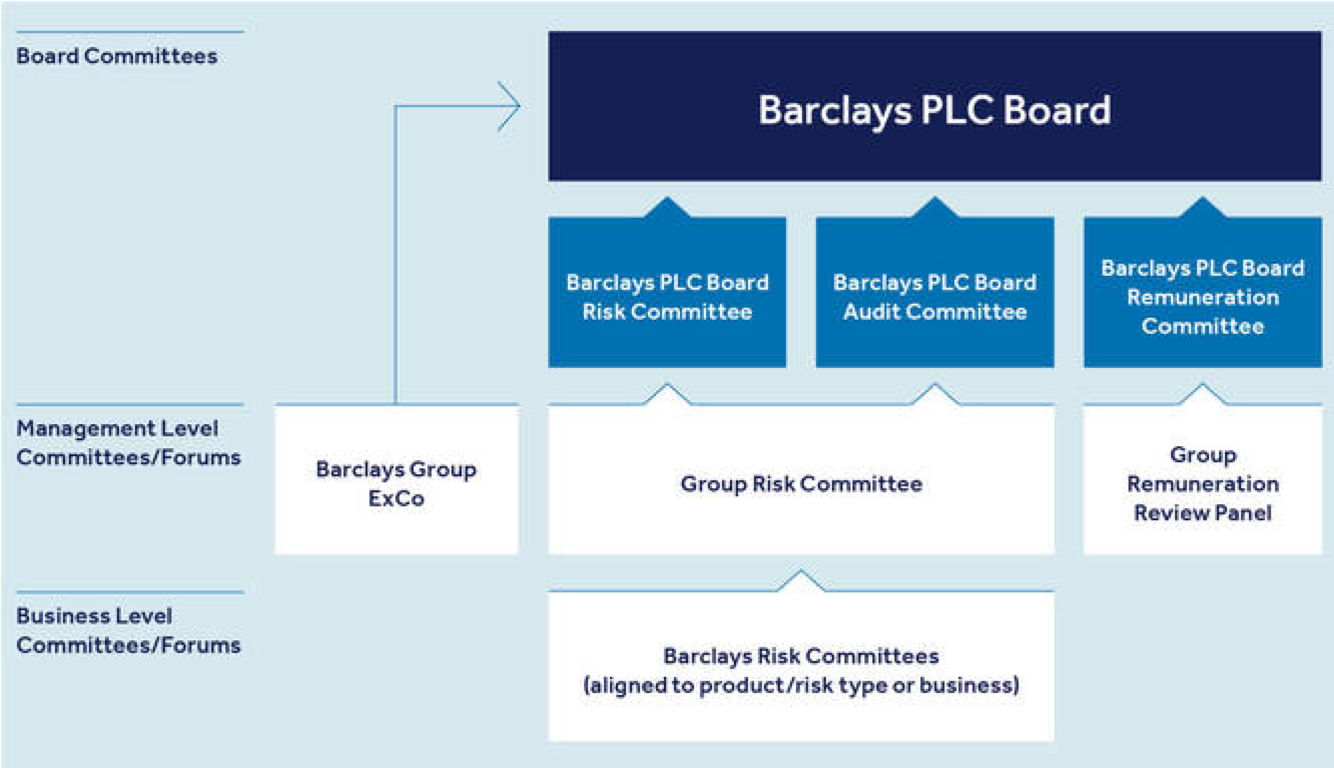
- frameworks cover high level principles guiding the management of principal risks, and set out details of which policies are needed, and high level governance arrangements
- policies set out the control objectives and high level requirements to address the key principles articulated in their associated frameworks. Policies state 'what' those within scope are required to do
- standards set out the detail of the control requirements to ensure the control objectives set by the policies are met.

### Segregation of duties – the 'Three Lines of Defence' model

The ERMF sets out a clear lines of defence model. All colleagues are responsible for understanding and managing risks within the context of their individual roles and responsibilities, as set out below.

- The First line comprises all employees engaged in the revenue-generating and client-facing areas of the Group and all associated support functions, including Finance, Operations, Treasury, and Human Resources. The first line is responsible for identifying and managing the risks in which they are engaged, operating within applicable limits, and escalating risk events or issues as appropriate. Employees in the first line have primary responsibility for their risks and their activities are subject to oversight from the relevant parts of the second and third lines.
- The Second line is comprised of the Risk and Compliance functions. The role of the second line is to establish the limits, rules and constraints, and the frameworks, policies and standards under which all activities shall be performed, consistent with the risk appetite of the Group, and to oversee the performance of the firm against these limits, rules and constraints . Controls for first line activities will ordinarily be established by the control officers operating within the control framework of the firm. These will remain subject to oversight by the second line.
- The Third line of defence is Internal Audit, who are responsible for providing independent assurance over the effectiveness of governance, risk management and controls over current, systemic and evolving risks.
- The Legal function provides support to all areas of the bank and is not formally part of any of the three lines of defence. The Legal function is responsible for the identification of all Legal and Regulatory Risks. Except in relation to the legal advice it provides or procures, it is subject to second line oversight with respect to its own operational and conduct risks, as well as with respect to the Legal and Regulatory Risks to which the bank is exposed.

# Risk management (continued)



# Risk management (continued)

## Principal risks

The ERMF identifies nine principal risks namely: credit risk, market risk, treasury and capital risk, climate risk, operational risk, model risk, conduct risk, reputation risk and legal risk. Note that climate risk was added in January 2022; see page 273 for more information.

Each of the principal risks is overseen by an accountable executive within the Group who is responsible for overseeing and/or assigning responsibilities for the framework, policies and standards that set out associated responsibilities and expectations and detail the related requirements around risk management. In addition, certain risks span across more than one principal risk.

## Risk appetite

Risk appetite is defined as the level of risk which the Group is prepared to accept in carrying out its activities. It provides a basis for ongoing dialogue between management and Board with respect to the Group's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis.

Risk appetite is approved by the Barclays PLC Board in aggregate and disseminated across legal entities and businesses, supported by limits to enable and control specific exposures and activities that have material concentration risk implications.

## Risk committees

Barclays various risk committees consider risk matters relevant to their business, and escalate as required to the Group Risk Committee (GRC), whose Chair, in turn, escalates to the Barclays PLC Board Committees and the Barclays PLC Board.

In addition to setting the risk appetite of the Group, the Board is responsible for approving the ERMF, and reviewing reputation risk matters. It receives regular information on the risk profile of the Group, and has ultimate responsibility for risk appetite and capital plans.

Further, there are two Board-level committees which oversee the application of the ERMF and implementation of key aspects, the Barclays PLC Board Risk Committee (BRC) and the Barclays PLC Board Audit Committee (BAC). Additionally, the Barclays PLC Board Remuneration Committee oversee pay practices focusing on aligning pay to sustainable performance.

- The Barclays PLC Board Risk Committee (BRC): the BRC monitors the Group's risk profile against the agreed appetite. Where actual performance differs from expectations, the actions taken by management are reviewed to ascertain that the BRC is comfortable with them. The BRC also reviews certain key risk methodologies, the effectiveness of risk management, and the Group's risk profile, including the material issues affecting each business portfolio and forward risk trends. The committee also commissions in-depth analysis of significant risk topics, which are presented by the Group CRO or senior risk managers.
- The Barclays PLC Board Audit Committee (BAC): the BAC receives regular reports on the effectiveness of internal control systems, quarterly reports on material control issues of significance, quarterly papers on accounting judgements (including impairment), and a quarterly review of the adequacy of impairment allowances, relative to the risk inherent in the portfolios, the business environment, and Barclays policies and methodologies.
- The Barclays PLC Board Remuneration Committee (RemCo): the RemCo receives proposals on ex-ante and ex-post risk adjustments to variable remuneration based on risk management performance including events, issues and the wider risk profile. These inputs are considered in the setting of performance incentives.

The terms of reference and additional details on membership and activities for each of the principal Board committees are available from the corporate governance section of the Barclays website at: home.barclays/who-we-are/our-governance/board-committees/

The GRC is the most senior executive body responsible for reviewing and monitoring the risk profile of the Group. This includes coverage of all principal risks, and any other material risks, to which the Group is exposed. The GRC reviews and recommends the proposed risk appetite and relative limits to the BRC. The committee covers all business units and legal entities of the Group and incorporates specific coverage of Barclays Bank Group.

### Barclays' risk culture

Risk culture can be defined as the norms, attitudes and behaviours related to risk awareness, risk taking and risk management. This is reflected in how the Group identifies, escalates and manages risk matters.

Barclays is committed to maintaining a robust risk culture in which:

- management expect, model and reward the right behaviours from a risk and control perspective
- colleagues identify, manage and escalate risk and control matters, and meet their responsibilities around risk management.

The Group CEO works with the Executive Management to embed a strong risk culture within the firm, with particular regard to the identification, escalation and management of risk matters, in accordance with the ERMF. Specifically, all employees regardless of their positions, functions or locations must play their part in the Group's risk management. Employees are required to be familiar with risk management policies which are relevant to their responsibilities, know how to escalate actual or potential risk issues, and have a role-appropriate level of awareness of the risk management process as defined by the ERMF.

### Our Code of Conduct – the Barclays Way

Globally, all colleagues must attest to the 'Barclays Way', our Code of Conduct, and comply with all frameworks, policies and standards applicable to their roles. The Code of Conduct outlines the Purpose, Values and Mindset which govern our 'Barclays Way' of working across our business globally. It constitutes a reference point covering all aspects of colleagues' working relationships, and provides guidance on working with other Barclays employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community. See home.barclays/sustainability/esg-resource-hub/statements-and-policy-positions/ for more details.

# Material existing and emerging risks

## Material existing and emerging risks to the Group's future performance

The Group has identified a broad range of risks to which its businesses are exposed. Material risks are those to which senior management pay particular attention and which could cause the delivery of the Group's strategy, results of operations, financial condition and/or prospects to differ materially from expectations. Emerging risks are those which have unknown components, the impact of which could crystallise over a longer time period. In addition, certain other factors beyond the Group's control, including escalation of global conflicts, acts of terrorism, natural disasters, pandemics and similar events, although not detailed below, could have a similar impact on the Group.

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

### i) Business conditions, general economy and geopolitical issues

The Group's operations are subject to changes in global and local economic and market conditions, as well as geopolitical developments, which may have a material impact on the Group's business, results of operations, financial condition and prospects.

A deterioration in global or local economic and market conditions may result in (among other things): (i) deteriorating business, consumer or investor confidence and lower levels of investment and productivity growth, which in turn may lead to lower customer and client activity, including lower demand for borrowing; (ii) higher default rates, delinquencies, write-offs and impairment charges as borrowers struggle with their debt commitments; (iii) subdued asset prices, which may impact the value of any collateral held by the Group and require the Group and its customers to post additional collateral in order to satisfy margin calls; (iv) mark-to-market losses in trading portfolios resulting from changes in factors such as credit ratings, share prices and solvency of counterparties; and (v) revisions to calculated ECLs leading to increases in impairment allowances. In addition, the Group's ability to borrow from other financial institutions or raise funding from external investors may be affected by deteriorating economic conditions and market disruption. Geopolitical events can also cause financial instability and affect economic growth.

In particular:

- Global GDP growth in 2022 was severely hampered by inflationary pressures resulting from; (a) the disruptive legacy of the COVID-19 pandemic on supply chains; (b) restricted labour markets and upward pressure on employment costs; and (c) escalating energy and food prices intensified by the conflict in Ukraine. These pressures have led to the on-going 'cost of living' pressures in much of the world, but particularly in the UK and Europe.
- In response to persistent inflationary pressures, throughout 2022, central banks pursued policies of raising interest rates while also curtailing quantitative easing and in some cases commencing quantitative tightening.
- Both the elevated inflationary environment and higher interest rates are likely to adversely affect economic growth globally in 2023, particularly in developed markets, with the possibility of elevated unemployment as a result, with potentially negative implications for the Group's performance, including through increased impairment allowances. It remains possible that a resurgence in COVID-19 and/or restrictions on movement imposed locally to combat outbreaks or new strains, could exacerbate the expected slowdown in global economic performance.
- In the UK and Europe, governments responded to escalating energy prices via short term subsidies for consumers and industry, in part funded by windfall taxes on targeted sectors. Revisions to these schemes during 2023 may cause upward pressure on household and corporate finances, which could result in higher impairment charges.
- Trading arrangements between the UK and the European Union (EU), following the UK's exit from the EU, may: (i) raise costs for UK customers trading with the EU, and/or otherwise adversely affect their business; and (ii) impact the Group's EU operations.
- Further, any trading disruption between the EU and the UK may have a significant impact on economic activity in the EU and the UK which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Unstable economic conditions could result in (among other things):
  - a deeper recession in the UK and/or one or more member states of the EU in which it operates, with lower growth, higher unemployment and falling property prices, which could lead to increased impairments in relation to a number of the Group's portfolios (including, but not limited to, the UK mortgage portfolio, unsecured lending portfolio (including credit cards) and commercial real estate exposures.
  - increased market volatility (in particular in currencies and interest rates), which could impact the Group's trading book positions and affect the underlying value of assets in the banking book and securities held by the Group for liquidity purposes
  - a credit rating downgrade for one or more members of the Group (either directly or indirectly as a result of a downgrade in the UK sovereign credit ratings), which could significantly increase the Group's cost of funding and/or reduce its access to funding, widen credit spreads and materially adversely affect the Group's interest margins and liquidity position and/or
  - a widening of credit spreads more generally or reduced investor appetite for the Group's debt securities, which could negatively impact the Group's cost of and/or access to funding
- A significant proportion of the Group's portfolio is located in the US, including a major credit card portfolio and a range of corporate and investment banking exposures. The possibility of significant changes in US policy in certain sectors (including trade, healthcare and commodities) may have an impact on the Group's associated portfolios. Stress in the US economy, weakening GDP and the associated exchange rate fluctuations, heightened trade tensions (such as between the US and China), and increased interest rates (particularly if accompanied by rise in unemployment) could lead to increased levels of impairment, which may have a material adverse effect on the Group's results of operations and profitability.
- An escalation in geopolitical tensions or increased use of protectionist measures (such as the US and China implementing reciprocal trade tariffs) may have a material adverse effect on the Group's business in the affected regions.
- In China the level of debt, particularly in the property sector, remains a concern, given the high level of leverage and despite government and regulatory action. The rapid unwinding of "zero COVID-19" policies may initially result in economic slowdown should large

# Material existing and emerging risks (continued)

numbers of the population catch COVID-19. Longer term, the shift away from market-based reforms towards state led initiatives to increase self-sufficiency and economic security, with potentially negative implications for world trade.

- Higher US interest rates and slowing demand for natural resources could cause economic deterioration in emerging markets, with a material adverse effect on the Group's results from operations if these stresses lead to higher impairment charges from a deterioration in sovereign or corporate creditworthiness.

### ii) Risks relating to the impact of COVID-19

The COVID-19 pandemic has had a material adverse impact on businesses around the world and the economic and social environments in which they operate. Consequently there are a number of factors associated with the COVID-19 pandemic and its impact on global economies that have had and could continue to have a material adverse effect on the profitability, capital and liquidity of the Group.

The COVID-19 pandemic caused disruption to the Group's customers, suppliers and staff globally. Most jurisdictions in which the Group operates implemented severe restrictions on the movement of their respective populations, with a resultant significant impact on economic activity. It remains unclear how the COVID-19 pandemic will evolve through 2023 and the risks from further waves, new strains and/or vaccines proving ineffective, cannot be ruled out and could result in the reintroduction of, or additional, restrictions placed on local populations . The Group continues to monitor the situation.

Macroeconomic expectations are that the effects of the COVID-19 pandemic will be long lasting with the level and speed of economic recovery still uncertain. To the extent that the residual impacts of the COVID-19 pandemic continue to adversely affect the global economy and/or the Group, it may also have the effect of increasing the likelihood and/or magnitude of other risks described herein or may pose other risks which are not presently known to the Group or not currently expected to be significant to the Group's profitability, capital and liquidity.

Further waves or new strains of COVID-19 could impact the Group's ability to conduct business in the jurisdictions in which it operates through disruptions to infrastructure and supply chains, business processes and technology services provided by third parties, and unavailability of staff due to illness. These interruptions to business may be detrimental to customers (who may seek reimbursement from the Group for costs and losses incurred as a result of such interruptions), and result in potential litigation costs (including regulatory fines, penalties and other sanctions), as well as reputational damage.

Changes in macroeconomic variables such as gross domestic product (GDP) and unemployment have a significant impact on the modelling of expected credit losses (ECLs) by the Group. The economic environment remains uncertain and future impairment charges may be subject to additional volatility (including from changes to macroeconomic variable forecasts) caused by further waves or new strains of the COVID-19 pandemic and related containment measures and the continued efficacy of vaccines and/or boosters, as well as the longer- term effectiveness of central bank, government and other support measures. For further details on macroeconomic variables used in the calculation of ECLs, refer to the credit risk performance section.

Any and all such events mentioned above could have a material adverse effect on the Group's business, results of operations, financial condition, prospects, liquidity, capital position and credit ratings (including potential credit rating agency changes of outlooks or ratings), as well as on the Group's customers, employees and suppliers.

### iii) The impact of interest rate changes on the Group's profitability

Changes to interest rates are significant for the Group, especially given the uncertainty as to the size and frequency of such changes, particularly in the Group's main markets of the UK, the US and the EU.

Interest rate rises result in higher funding costs but could positively impact the Group's profitability as retail and corporate business net interest income increases due to margin decompression, as observed for the interest rate rises in 2022. However, increases in interest rates, if larger or more frequent than expected, could lead to generally weaker than expected growth, reduced business confidence and higher unemployment. This, combined with the impact interest rate rises may have on the affordability of loan arrangements for borrowers (especially when combined with inflationary pressures), could cause stress in the lending portfolio and underwriting activity of the Group with resultant higher credit losses driving an increased impairment charge which would most notably impact retail unsecured portfolios and wholesale non-investment grade lending and could have a material effect on the Group's business, results of operations, financial condition and prospects.

Interest rate cuts may affect, and put pressure on, the Group's net interest margins (the difference between its lending income and borrowing costs) and could adversely affect the profitability and prospects of the Group.

In addition, changes in interest rates could have an adverse impact on the value of the securities held in the Group's liquid asset portfolio. Consequently, this could create more volatility than expected through the Group's Fair Value through Other Comprehensive Income (FVOCI) reserve and could adversely affect the profitability and prospects of the Group.

### iv) Competition in the banking and financial services industry

The Group operates in a highly competitive environment in which it must evolve and adapt to significant changes as a result of regulatory reform, technological advances, increased public scrutiny and prevailing economic conditions. The Group expects that competition in the financial services industry will continue to be intense and may have a material adverse effect on the Group's future business, results of operations, financial condition and prospects.

New competitors in the financial services industry continue to emerge. Technological advances and the growth of e-commerce have made it possible for non- banks to offer products and services that traditionally were banking products such as electronic securities trading, payments processing and online automated algorithmic-based investment advice. Furthermore, payments processing and other services could be significantly disrupted by technologies, such as blockchain (used in cryptocurrency systems) and 'buy now pay later' lending, both of which are currently subject to lower levels of regulatory oversight. Furthermore, the introduction of Central Bank Digital Currencies could potentially have significant impact on the banking system and the role of commercial banks within it by disrupting the current provision of banking products and services. This disruption could allow new competitors,

# Material existing and emerging risks (continued)

some previously hindered by banking regulation (such as FinTechs), to provide customers with access to banking facilities and increase disintermediation of banking services.

New technologies and changing consumer behaviour have required and could require the Group to incur additional cost to modify or adapt its products or make additional capital investments in its businesses to attract and retain clients and customers or to match products and services offered by its competitors, including technology companies.

Ongoing or increased competition and/or disintermediation of banking services may put pressure on the pricing of the Group's products and services, which could reduce the Group's revenues and profitability, or may cause the Group to lose market share, particularly with respect to traditional banking products such as deposits, bank accounts and mortgage lending. This competition may be on the basis of quality and variety of products and services offered, transaction execution, innovation, reputation and/or price. These factors may be exacerbated by further industry wide initiatives to address access to banking. The failure of any of the Group's businesses to meet the expectations of clients and customers, whether due to general market conditions, underperformance, a decision not to offer a particular product or service, branch closures, changes in client and customer expectations or other factors, could affect the Group's ability to attract or retain clients and customers. Any such impact could, in turn, reduce the Group's revenues.

**v) Regulatory change agenda and impact on business model**

The Group's businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the US, the EU and the other markets in which it operates. Many regulatory changes relevant to the Group's business may have an effect beyond the country in which they are enacted, either because the Group's regulators deliberately enact regulation with extra-territorial impact or its global operations mean that the Group is obliged to give effect to local laws and regulations on a wider basis.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. Measures taken include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes, changes in compensation practices and more detailed requirements on how business is conducted. The governments and regulators in the UK, the US, the EU or elsewhere may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Group.

Current and anticipated areas of particular focus for the Group's regulators, where regulatory changes could have a material effect on the Group's business, financial condition, results of operations, prospects, capital position, and reputation, include, but are not limited to:

- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets, including the proposed introduction in the UK of a new consumer duty and measures resulting from ongoing thematic reviews into the workings of the retail, small- and medium-sized enterprise and wholesale banking sectors and the provision of financial advice to consumers;
- the implementation of any conduct measures as a result of regulators' focus on organisational culture, employee behaviour and whistleblowing;
- the demise of certain benchmark interest rates and the transition to new risk-free reference rates (as discussed further under 'vi) Impact of benchmark interest rate reforms on the Group' below);
- reviews of regulatory frameworks applicable to the wholesale financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus globally on technology adoption and digital delivery, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and global stable coins) and cybersecurity. This also includes the introduction of new and/or enhanced regulatory standards in these areas;
- increasing regulatory expectations of firms around governance and risk management frameworks, particularly for management of climate change, diversity and inclusion and other ESG risks and enhanced ESG disclosure and reporting obligations;
- the continued evolution of the UK's regulatory framework following the UK's withdrawal from the EU, including in light of the UK financial services regulatory reform agenda announced in December 2022 and the proposals in the Financial Services and Markets Bill, and similarly regarding the access of UK and other non-EU financial institutions to EU markets;
- the implementation of the reforms to the Basel III package, which includes changes to the RWA approaches to credit risk, market risk, counterparty risk, operational risk, and credit valuation adjustments and the application of RWA floors and the leverage ratio;
- the implementation of more stringent capital, liquidity and funding requirements;
- the ongoing regulatory response to the COVID-19 pandemic and its implications for banks' credit risk management and provisioning processes, capital adequacy and liquidity, and a renewed focus on vulnerable customers including the treatment of customers and consideration of longer-term initiatives to support borrowers in financial difficulty and measures designed to maximise access to cash for consumers;
- the incorporation of climate change within the global prudential framework, including the transition risks resulting from a shift to a low carbon economy and its financial effects;
- increasing requirements to detail management accountability within the Group (for example, the requirements of the Senior Managers and Certification Regime in the UK and similar regimes elsewhere that are either in effect or under consideration/implementation), as well as requirements relating to executive remuneration;
- changes in national or supra-national requirements regarding the ability to offshore or outsource the provision of services and resources or transfer

# Material existing and emerging risks (continued)

material risk to financial services companies located in other countries, which impact the Group's ability to implement globally consistent and efficient operating models;

- financial crime, fraud and market abuse standards and increasing expectations for related control frameworks, to ensure firms are adapting to new threats such as those arising from the COVID-19 pandemic, and are protecting customers from cyber-enabled crime;
- the application and enforcement of economic sanctions including those with extra-territorial effect and those arising from geopolitical tensions;
- requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities that may have different effects in different countries;
- the increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions;
- continuing regulatory focus on data privacy, including the collection and use of personal data, and protection against loss and unauthorised or improper access;
- the regulatory focus on policies and procedures for identifying and managing cybersecurity risks, cybersecurity governance and the corresponding disclosure and reporting obligations; and
- continuing regulatory focus on the effectiveness of internal controls and risk management frameworks, as evidenced in regulatory fines and other measures imposed against the Group and other financial institutions.

+ **For further details on the regulatory supervision of, and regulations applicable to, the Group,** refer to the Supervision and regulation section on page 370.

### vi) Impact of benchmark interest rate reforms on the Group

Global regulators and central banks in the UK, the US and the EU have driven international efforts to reform key benchmark interest rates and indices, such as the London Interbank Offered Rate (LIBOR), used to determine the amounts payable under a wide range of transactions and make them more reliable and robust. These benchmark reforms have resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of alternative risk-free reference rates (RFRs), the discontinuation of certain reference rates (including LIBOR), and the introduction of implementing legislation and regulations. Specifically, certain LIBOR tenors either ceased at the end of 2021 or became permanently unrepresentative. Furthermore, certain US dollar LIBOR tenors are to cease by the end of June 2023, and restrictions have been imposed on new use of US dollar LIBOR. Notwithstanding these developments, given the unpredictable consequences of benchmark reform, any of these developments could have an adverse impact on market participants, including the Group, in respect of any financial instruments linked to, or referencing, any of these benchmark interest rates. Uncertainty associated with such potential changes, including the availability and/or suitability of alternative RFRs, the participation of customers and third party market participants in the transition process, challenges with respect to required documentation changes, and impact of legislation to deal with certain legacy contracts that cannot convert into or add fall-back RFRs before cessation of the benchmark they reference, may adversely affect a broad range of transactions (including any securities, loans and derivatives which use LIBOR or any other affected benchmark to determine the interest payable which are included in the Group's financial assets and liabilities) that use these reference rates and indices, and present a number of risks for the Group, including but not limited to:

- Conduct risk: in undertaking actions to transition away from using certain reference rates (such as LIBOR) to new alternative RFRs, the Group faces conduct risks. These may lead to customer complaints, regulatory sanctions or reputational impact if the Group is considered to be (among other things): (i) undertaking market activities that are manipulative or create a false or misleading impression; (ii) misusing sensitive information or not identifying or appropriately managing or mitigating conflicts of interest; (iii) providing customers with inadequate advice, misleading information, unsuitable products or unacceptable service; (iv) not taking a consistent approach to remediation for customers in similar circumstances; (v) unduly delaying the communication and migration activities in relation to client exposure, leaving them insufficient time to prepare; or (vi) colluding or inappropriately sharing information with competitors.
- Litigation risk: members of the Group may face legal proceedings, regulatory investigations and/or other actions or proceedings regarding (among other things): (i) the conduct risks identified above, (ii) the interpretation and enforceability of provisions in LIBOR-based contracts and securities, and (iii) the Group's preparation and readiness for the replacement of LIBOR with alternative RFRs.
- Financial risk: the valuation of certain of the Group's financial assets and liabilities may change. Moreover, transitioning to alternative RFRs may impact the ability of members of the Group to calculate and model amounts receivable by them on certain financial assets and determine the amounts payable on certain financial liabilities (such as debt securities issued by them) because certain alternative RFRs (such as the Sterling Overnight Index Average (SONIA) and the Secured Overnight Financing Rate (SOFR)) are look-back rates whereas term rates (such as LIBOR) allow borrowers to calculate at the start of any interest period exactly how much is payable at the end of such interest period. This may have a material adverse effect on the Group's cash flows.
- Pricing risk: changes to existing reference rates and indices, discontinuation of any reference rate or indices and transition to alternative RFRs may impact the pricing mechanisms used by the Group on certain transactions.
- Operational risk: changes to existing reference rates and indices, discontinuation of any reference rate or index and transition to alternative RFRs may require changes to the Group's IT systems, trade reporting infrastructure, operational processes, and controls. In addition, if any reference rate or index (such as LIBOR) is no longer available to calculate amounts payable, the Group may incur additional expenses in amending documentation for new and existing transactions and/or effecting the transition from the original reference rate or index to a new reference rate or index.
- Accounting risk: an inability to apply hedge accounting in accordance with IAS 39 could lead to increased volatility in the Group's financial results and performance.

Any of these factors may have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.

# Material existing and emerging risks (continued)

**For further details on the impacts of benchmark interest rate reforms on the Group,** refer to Note 41.

### vii) Change delivery and execution risks

The Group will need to adapt and/or transform the way it conducts business in response to changing customer behaviour and needs, technological developments, regulatory expectations, increased competition and cost management initiatives. Accordingly, effective management of transformation projects is required to successfully deliver the Group's strategic priorities, involving delivering both on externally driven programmes, as well as key business initiatives to deliver revenue growth, product enhancement and operational efficiency outcomes. The magnitude, complexity and, at times, concurrent demands of the projects required to meet these priorities can result in heightened execution risk.

The ability to execute the Group's strategy may be limited by operational capacity and the increasing complexity of the regulatory environment in which the Group operates. In addition, whilst the Group continues to pursue cost management initiatives, they may not be as effective as expected and cost saving targets may not be met.

The failure to successfully deliver or achieve any of the expected benefits of these strategic initiatives and/or the failure to meet customer and stakeholder expectations could have a material adverse effect on the Group's business, results of operations, financial condition, customer outcomes, prospects and reputation.

### viii) Holding company structure of Barclays PLC and its dependency on distributions from its subsidiaries

Barclays PLC is a holding company and its principal sources of income are, and are expected to continue to be, distributions (in the form of dividends and interest payments) from operating subsidiaries which also hold the principal assets of the Group. As a separate legal entity, Barclays PLC relies on such distributions in order to be able to meet its obligations as they fall due (including its payment obligations with respect to its debt securities) and to create distributable reserves for capital distributions (such as dividends to ordinary shareholders and share buybacks).

The ability of Barclays PLC's subsidiaries to pay dividends and interest and Barclays PLC's ability to receive such distributions from its investments in its subsidiaries and other entities will be subject not only to the financial performance of such subsidiaries and entities and prevailing macroeconomic conditions but also to applicable local laws, capital regulations (including internal MREL requirements) and other restrictions (including restrictions imposed by governments and/or regulators, which limit management's flexibility in managing the business and taking action in relation to capital distributions and capital allocation). These laws and restrictions could limit the payment of dividends and distributions to Barclays PLC by its subsidiaries and any other entities in which it holds an investment from time to time, which could restrict Barclays PLC's ability to meet its obligations and/or to make capital distributions (such as dividends to ordinary shareholders and share buybacks).

### ix) Application of resolution measures and stabilisation powers under the Banking Act

Under the Banking Act 2009, as amended (Banking Act), substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury, as appropriate, as part of a special resolution regime (SRR). These powers enable the relevant UK resolution authority to implement resolution measures and stabilisation options with respect to a UK bank or investment firm and certain of its affiliates (currently including Barclays PLC) (each, a relevant entity) in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met.

The SRR consists of five stabilisation options: (i) private sector transfer of all or part of the business or shares of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' established by the Bank of England; (iii) transfer to an asset management vehicle wholly or partly owned by HM Treasury or the Bank of England; (iv) the cancellation, transfer or dilution of the relevant entities' equity (including Barclays PLC's ordinary share capital) and write-down or conversion of the relevant entity's capital instruments and liabilities (the bail-in tool); and (v) temporary public ownership (i.e. nationalisation).

In addition, the relevant UK resolution authority may, in certain circumstances, in accordance with the Banking Act require the permanent write-down or conversion into equity of any outstanding Tier 1 capital instruments, Tier 2 capital instruments and internal MREL prior to, or together with, the exercise of any stabilisation option. Any such action could result in the dilution of Barclays PLC's ordinary share capital, restrict Barclays PLC's ability to meet its obligations and/or to pay dividends to ordinary shareholders.

Shareholders should assume that, in a resolution situation, public financial support will only be available to a relevant entity as a last resort after the relevant UK resolution authorities have assessed and used, to the maximum extent practicable, the resolution tools, including the bail-in tool (the Bank of England's preferred approach for the resolution of the Group is a bail-in strategy with a single point of entry at Barclays PLC). The exercise of any of such powers under the Banking Act or any suggestion of any such exercise could materially adversely affect the value of Barclays PLC ordinary shares and could lead to shareholders losing some or all of their investment.

In addition, any safeguards within the Banking Act (such as the 'no creditor worse off' principle) may not result in compensation to shareholders that is equivalent to the full losses incurred by them in the resolution and there can be no assurance that shareholders would recover such compensation promptly.

## Material existing and emerging risks impacting individual principal risks

### i) Climate risk

The risks associated with climate change are subject to rapidly increasing societal, regulatory and political focus, both in the UK and internationally. In line with regulatory expectations and requirements, the Group has embedded climate risk within the Enterprise Risk Management Framework (ERMF), to address the financial and operational risks resulting from: (i) the physical risk of climate change; and (ii) the risk from the transition to a low-carbon economy. Climate risk is considered to be a driver of financial and operational risks.

Physical risks from climate change arise from a number of factors and relate to specific weather events (acute) and longer-term shifts in the climate (chronic). The nature and timing of extreme weather events are uncertain, but they are increasing in frequency and in the potential severity of economic impact.

The potential impact on the economy includes, but is not limited to, lower GDP growth, higher unemployment, shortage of raw materials and products due to supply chain disruptions and significant changes in asset prices and profitability of industries. Damage to the properties and operations of borrowers could decrease

# Material existing and emerging risks (continued)

production capacity, increase operating costs, impair asset values and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in Barclays' portfolios. In addition, the Group's premises and resilience may also suffer physical damage due to weather events leading to increased costs for the Group.

As the economy transitions to a low-carbon economy, financial institutions such as the Group face significant and rapid developments in stakeholder expectations, policy, law and regulation which could impact the lending activities the Group undertakes, as well as the risks associated with its lending portfolios, and the value of the Group's assets. As new policies and regulations are enforced, market sentiment and societal preferences change and new technologies emerge, this may result in increased costs and reduced demand of product and services of a company, early retirement and impairment of assets, decreased revenue and profitability for Barclays customers. This in turn may impact creditworthiness of customers and their ability to repay loans. Additionally, the Group may face greater scrutiny of the type of business it conducts, adverse media coverage and reputational damage, which may in turn impact customer demand for the Group's products, returns on certain business activities and the value of certain assets and trading positions resulting in impairment charges.

Furthermore, the impacts of physical and transition climate risks can lead to second order connected risks, which have the potential to affect the Group's retail and wholesale portfolios. The impacts of climate change may increase losses for those sectors sensitive to the effects of physical and transition risks. Any subsequent increase in defaults and rising unemployment could create recessionary pressures, which may lead to wider deterioration in the creditworthiness of the Group's clients, higher expected credit losses (ECLs), and increased charge-offs and defaults among retail customers.

From January 2022, climate risk became one of the principal risks within the Group's ERMF. Failure to adequately embed the financial and operational risks associated with climate change into its risk framework to appropriately measure, manage and disclose the various financial and operational risks it faces as a result of climate change or failure to adapt the Group's strategy and business model to the changing regulatory requirements and market expectations on a timely basis, may have a material and adverse impact on the Group's level of business growth, competitiveness, profitability, capital requirements, cost of funding, and financial condition.

In March 2020, the Group announced its ambition to become a net zero bank by 2050 and its commitment to align all of its financing activities with the goals and timelines of the Paris Agreement. In order to reach these ambitions and targets or any other climate-related ambitions or targets the Group may commit to in future, the Group will need to continue to incorporate climate considerations into its strategy, business model, the products and services it provides to customers and its financial and non-financial risk management processes (including processes to measure and manage the various financial and non-financial risks the Group faces as a result of climate change). The Group also needs to ensure that its strategy and business model adapt to changing, and sometimes conflicting, national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development and vary between regions, sometimes to a significant extent. There can be no assurance that these standards, practices, requirements and expectations will not change in a manner that substantially increases the cost or effort for the Group to achieve such ambitions and targets. In addition, the Group's ambitions and targets may prove more challenging to achieve due to changing circumstances and potentially volatile external factors which are beyond our control, including geopolitical issues, energy security, energy poverty and other considerations such as just transition to a low carbon economy. This may be exacerbated if the Group chooses or is required to accelerate its climate-related ambitions or targets as a result of UK or international regulatory developments or stakeholder expectations.

Achieving the Group's climate-related ambitions and targets will also depend on a number of factors outside the Group's control, including reliable forecast of hazards from the physical climate models, availability of data and models to measure and assess the climate impact of the Group's customers, advancements of low-carbon technologies and supportive public policies in the markets where the Group operates. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group may fail to achieve its climate-related ambitions and targets and this could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.

For further details on the Group's approach to climate change, refer to the climate risk management section.

### ii) Credit risk

Credit risk is the risk of loss to the Group from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to members of the Group, including the whole and timely payment of principal, interest, collateral and other receivables. Credit risk is impacted by a number of factors outside the Group's control, including wider economic conditions.

#### a) Impairment

Impairment is calculated in line with the requirements of IFRS9 which results in recognition of loss allowances, based on ECLs, on a forward-looking basis using a broad scope of financial metrics. Measurement involves complex judgement and impairment charges are potentially volatile and may not successfully predict actual credit losses, particularly under stressed conditions. Any failure by the Group to accurately estimate credit losses through ECLs could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

+ **For further details,** refer to Note 8.

#### b) Specific portfolios, sectors and concentrations

The Group is subject to risks arising from changes in credit quality and recovery rates for loans and advances due from borrowers and counterparties and is subject to a concentration of those risks where the Group has significant exposures to borrowers and counterparties in specific sectors, or to particular types of borrowers and counterparties. Any deterioration in the credit quality of such borrowers and counterparties could lead to lower recoverability from loans and advances and higher impairment charges. Accordingly, any of the following areas of uncertainty could have a material adverse impact on the Group's business, results of operations, financial condition and prospects:

- Consumer affordability: remains a key area of focus, particularly in unsecured lending, as the 'cost of living' pressures grow. Macroeconomic factors, such as unemployment, higher interest rates or broader inflationary pressures, that

# Material existing and emerging risks (continued)

impact a customer's ability to service debt payments could lead to increased arrears in both unsecured and secured products.

- UK retail, hospitality and leisure: falling demand, rising costs and, for UK retail, a structural shift to online shopping, continue to pressurise sectors heavily reliant on consumer discretionary spending. Such sectors may also be adversely impacted by cost of living pressures and other macroeconomic factors which affect consumers This represents a potential risk in the Group's UK corporate portfolio as a higher probability of default exists for retailers, hospitality providers and their landlords while these pressures remain.
- UK real estate: UK property represents a significant portion of the Group's overall retail and corporate credit exposure and the Group remains at risk of increased impairment from a material fall in property prices. During 2021 and continuing through the first half of 2022, property prices rose, particularly in the residential property market where customers sought more space as home working became more prevalent. However, rising mortgage interest rates and increasing economic concerns have reduced demand and borrowing capacity which resulted in small house price decreases in Q4 2022. This is likely to continue in 2023, especially in London and the South East of the UK where the Group has a high exposure. Additionally, as mortgages roll off existing rates and onto new rates at higher levels, there is a risk of increasing borrower defaults which could then put further downward pressure on property prices and in turn impact the Group's impairment and capital position. Furthermore, small segments of the housing market could be subject to specific valuation impacts (for example, certain properties within the Group's residential loan portfolio may be subject to remediation activities relating to fire safety standards). The Group's corporate exposure is vulnerable to a deteriorating economic environment and (for offices in particular) post COVID-19 pandemic structural shifts, such as the normalisation of remote working. Landlords serving discretionary consumer spending sector tenants are also at risk from reduced rent collection.
- Leveraged finance underwriting: the Group takes on non-investment grade underwriting exposure, including single name risk, particularly in the US and the UK. The Group is exposed to credit events and market volatility during the underwriting period, which may result in losses for the Group, or increased capital requirements should there be a need to hold the exposure for an extended period.
- Oil & Gas sector: High market energy prices during 2022 have helped restore balance sheet strength to companies operating in this sector. However, in the longer term, costs associated with the transition towards renewable sources of energy may place greater financial demands on oil and gas companies.
- Air travel: the sector struggled to resource for the recovery in lower margin (tourist) demand for air travel evidenced in 2022 (after the drop in demand during the pandemic), and to adjust to the structural decline in higher margin business travel. While this transition plays out, there remains a heightened risk to the revenue streams of the Group's clients and, consequentially, their ability to service debt obligations. Increasing concerns about the impact of air travel on climate change will also influence consumer behaviour, representing additional risks for the sector.

The Group also has large individual exposures to single name counterparties, (such as brokers, central clearing houses, dealers, banks, mutual and hedge funds and other institutional clients) both in its lending and trading activities, including derivative trades. The default of one such counterparty could cause contagion across clients involved in similar activities and/or adversely impact asset values should margin calls necessitate rapid asset disposals by that counterparty to raise liquidity. In addition, where such counterparty risk has been mitigated by taking collateral, credit risk may remain high if the collateral held cannot be monetised, 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.

+ **For further details on the Group's approach to credit risk,** refer to the credit risk management and credit risk performance sections.

### iii) Market risk

Market risk is the risk of loss arising from potential adverse changes in the value of the Group'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.

Economic and financial market uncertainties remain elevated, driven by elevated inflation and tightening monetary policy, both of which are exacerbated by the conflict in Ukraine and supply-chain disruptions caused by the COVID-19 pandemic. A disruptive adjustment to higher interest rate levels and deteriorating trade and geopolitical tensions could heighten market risks for the Group's portfolios.

In addition, the Group's trading business is generally exposed to a prolonged period of elevated asset price volatility, particularly if it adversely affects market 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 higher hedging costs from rebalancing risks that need to be managed dynamically as market levels and their associated volatilities change.

Changes in market conditions could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

+ **For further details on the Group's approach to market risk,** refer to the market risk management and market risk performance sections.

### iv) Treasury and capital risk

There are three primary types of treasury and capital risk faced by the Group:

#### a) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. This could cause the Group to fail to meet regulatory and/or internal liquidity requirements, make repayments of principal or interest as they fall due or to support day-to-day business activities. Key liquidity risks that the Group faces include:

- Stability of the Group's deposit funding profile: deposits which are payable on demand or at short notice could be adversely affected by the Group failing to preserve the current level of customer and investor confidence or as

# Material existing and emerging risks (continued)

a result of competition in the banking industry.

- Ongoing access to wholesale funding: the Group regularly accesses the money and capital markets to provide short-term and long-term unsecured and secured funding to support its operations. A loss of counterparty confidence, or adverse market conditions (such as the recent rises in interest rates) could lead to a reduction in the tenor, or an increase in the costs, of the Group's unsecured and secured wholesale funding or affect the Group's access to such funding.
- Impacts of market volatility: adverse market conditions, with increased volatility in asset prices could: (i) negatively impact the Group's liquidity position through increased derivative margin requirements and/or wider haircuts when monetising liquidity pool securities; and (ii) make it more difficult for the Group to execute secured financing transactions.
- Intraday liquidity usage: increased collateral requirements for payments and securities settlement systems could negatively impact the Group's liquidity position, as cash and liquid assets required for intraday purposes are unavailable to meet other outflows.
- Off-balance sheet commitments: deterioration in economic and market conditions could cause customers to draw on off-balance sheet commitments provided to them, for example revolving credit facilities, negatively affecting the Group's liquidity position.
- Credit rating changes and impact on funding costs: any reductions in a credit rating (in particular, any downgrade below investment grade) may affect the Group's access to the money or capital markets and/or terms on which the Group is able to obtain market funding (for example, this could lead to increased costs of funding and wider credit spreads, the triggering of additional collateral or other requirements in derivative contracts and other secured funding arrangements, or limits on the range of counterparties who are willing to enter into transactions with the Group).

### b) Capital risk

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

- Failure to meet prudential capital requirements: this could lead to the Group being unable to support some or all of its business activities, a failure to pass regulatory stress tests, increased cost of funding due to deterioration in investor appetite or credit ratings, restrictions on distributions (including in respect of its shares and/or additional tier 1 instruments), leading to the inability to comply with the Group's dividend policy and/or the need to take additional measures to strengthen the Group's capital or leverage position.
- Adverse changes in FX rates impacting capital ratios: the Group has capital resources, risk weighted assets and leverage exposures denominated in foreign currencies. Changes in foreign currency exchange rates may adversely impact the sterling equivalent value of these items. As a result, the Group's regulatory capital ratios are sensitive to foreign currency movements. Failure to appropriately manage the Group's balance sheet to take account of foreign currency movements could result in an adverse impact on the Group's regulatory capital and leverage ratios.
- Adverse movements in the pension fund: adverse movements in pension assets and liabilities for defined benefit pension schemes could result in deficits on a technical provision and/or IAS 19 accounting basis. This could lead to the Group making substantial additional contributions to its pension plans and/or a deterioration in its capital position. The market value of pension fund assets might decline; or investment returns might reduce. Under IAS 19, the liabilities discount rate is derived from the yields of high-quality corporate bonds. Therefore, the valuation of the Group's defined benefits schemes would be adversely affected by a prolonged fall in the discount rate due to a persistent low interest rate and/or credit spread environment. Inflation is another significant risk driver to the pension fund as the liabilities are adversely impacted by an increase in long-term inflation expectations.

### c) Interest rate risk in the banking book

Interest rate risk in the banking book is the risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its (non-traded) assets and liabilities. The Group's hedging programmes for interest rate risk in the banking book rely on behavioural assumptions and, as a result, the effectiveness of the hedging strategy cannot be guaranteed. A potential mismatch in the balance or duration of the hedging assumptions could lead to earnings deterioration if there are interest rate movements which are not adequately hedged. A decline in interest rates may also compress net interest margin on retail and corporate portfolios. In addition, the Group's liquid asset portfolio is exposed to potential capital and/or income volatility due to movements in market rates and prices which may have a material adverse effect on the capital position of the Group.

+ **For further details on the Group's approach to treasury and capital risk,** refer to the treasury and capital risk management and treasury and capital risk performance sections.

## v) Operational risk

Operational risk is the risk of loss to the Group from inadequate or failed processes or systems, human factors or due to external events where the root cause is not due to credit or market risks. Examples include:

### a) Operational resilience

The Group functions in a highly competitive market, with customers and clients that expect consistent and smooth business processes. The loss of or disruption to business processing is a material inherent risk within the Group and across the financial services industry, whether arising through failures in the Group's technology systems, closure of the Group's real estate services including its retail branch network, or availability of personnel or services supplied by third parties. Failure to build resilience and recovery capabilities into business processes or into the services on which the Group's business processes depend, may result in significant customer detriment, costs to reimburse losses incurred by the Group's customers, and reputational damage.

### b) Cyberattacks

Cyberattacks continue to be a global threat that is inherent across all industries, with the number and severity of attacks continuing to rise. The financial sector remains a primary target for cybercriminals, hostile nation states, opportunists and hacktivists. The Group, like other financial institutions, experiences numerous attempts to compromise its cybersecurity protections.

The Group dedicates significant resources to reducing cybersecurity risks, but it

# Material existing and emerging risks (continued)

cannot provide absolute security against cyberattacks. Malicious actors are increasingly sophisticated in their methods, tactics, techniques and procedures, seeking to steal money, gain unauthorised access to, destroy or manipulate data, and disrupt operations, and some of their attacks may not be recognised or discovered until launched or after initial entry into the environment, such as novel or zero-day attacks that are launched before patches are available and defences can be readied. Malicious actors are also increasingly developing methods to avoid prevention, detection and alerting capabilities, including employing counter-forensic tactics making response activities more difficult. Cyberattacks can originate from a wide variety of sources and target the Group in numerous ways, including attacks on networks, systems, applications or devices used by the Group or parties such as service providers and other suppliers, counterparties, employees, contractors, customers or clients, presenting the Group with a vast and complex defence perimeter. Moreover, the Group does not have direct control over the cybersecurity of the systems of its clients, customers, counterparties and third-party service providers and suppliers, limiting the Group's ability to effectively protect and defend against certain threats. Some of the Group's third-party service providers and suppliers have experienced successful attempts to compromise their cybersecurity. These included ransomware attacks that disrupted the service providers' or suppliers' operations and, in some cases, had an impact on the Group's operations. Such cyberattacks are likely to continue.

A failure in the Group's adherence to its cybersecurity policies, procedures or controls, employee malfeasance, and human, governance or technological error could also compromise the Group's ability to successfully prevent and defend against cyberattacks. Furthermore, certain legacy technologies that are at or approaching end-of-life may not be able to maintain acceptable levels of security. The Group has experienced cybersecurity incidents and near-misses in the past, and it is inevitable that additional incidents will occur in the future. Cybersecurity risks are expected to increase, due to factors such as the increasing demand across the industry and customer expectations for continued expansion of services delivered over the Internet; increasing reliance on Internet-based products, applications and data storage; and changes in ways of working by the Group's employees, contractors, and third party service providers and suppliers and their subcontractors as a long-term consequence of the COVID-19 pandemic. Bad actors have taken advantage of remote working practices and modified customer behaviours, exploiting the situation in novel ways that may elude defences. Additionally, geopolitical turmoil may serve to increase the risk of a cyberattack that could impact Barclays directly, or indirectly through its critical suppliers or national infrastructure. In 2022, the Group faced a heightened risk of cyberattack as a result of the conflict in Ukraine.

Common types of cyberattacks include deployment of malware to obtain covert access to systems and data; ransomware attacks that render systems and data unavailable through encryption and attempts to leverage business interruption or stolen data for extortion; novel or zero-day exploits; denial of service and distributed denial of service (DDoS) attacks; infiltration via business email compromise; social engineering, including phishing, vishing and smishing; automated attacks using botnets; third-party customer, vendor, service provider and supplier account take-over; malicious activity facilitated by an insider; and credential validation or stuffing attacks using login and password pairs from unrelated breaches. A successful cyberattack of any type has the potential to cause serious harm to the Group or its clients and customers, including exposure to potential contractual liability, claims, litigation, regulatory or other government action, loss of existing or potential customers, damage to the Group's brand and reputation, and other financial loss. The impact of a successful cyberattack also is likely to include operational consequences (such as unavailability of services, networks, systems, devices or data) remediation of which could come at significant cost.

Regulators worldwide continue to recognise cybersecurity as an increasing systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience to cyberattacks. A successful cyberattack may, therefore, result in significant regulatory fines on the Group. In addition, any new regulatory measures introduced to mitigate these risks are likely to result in increased technology and compliance costs for the Group.

+ **For further details on the Group's approach to cyberattacks,** see the operational risk performance section. For further details on cybersecurity regulation applicable to the Group, refer to the Supervision and regulation section.

### c) New and emergent technology

Technology is fundamental to the Group's business and the financial services industry. Technological advancements present opportunities to develop new and innovative ways of doing business across the Group, with new solutions being developed both in-house and in association with third party companies. For example, payment services and securities, futures and options trading are increasingly occurring electronically, both on the Group's own systems and through other alternative systems, and becoming automated. Whilst increased use of electronic payment and trading systems and direct electronic access to trading markets could significantly reduce the Group's cost base, it may, conversely, reduce the commissions, fees and margins made by the Group on these transactions which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Introducing new forms of technology, however, has the potential to increase inherent risk. Failure to evaluate, actively manage and closely monitor risk during all phases of business development and implementation could introduce new vulnerabilities and security flaws and have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### d) External fraud

The nature of fraud is wide-ranging and continues to evolve, as criminals seek opportunities to target the Group's business activities and exploit changes in customer behaviour and product and channel use (such as the increased use of digital products and enhanced online services) or exploit new products. Fraud attacks can be very sophisticated and are often orchestrated by organised crime groups who use various techniques to target customers and clients directly to obtain confidential or personal information that can be used to commit fraud. The UK market has also seen significant growth in 'scams' where the Group takes increased levels of liability as part of a voluntary code to provide additional safeguards to customers and clients who are tricked into making payments to fraudsters. The impact from fraud can lead to customer detriment, financial losses (including the reimbursement of losses incurred by

# Material existing and emerging risks (continued)

customers), loss of business, missed business opportunities and reputational damage, all of which could have a material adverse impact on the Group's business, results of operations, financial condition and prospects.

**e) Data management and information protection**

The Group holds and processes large volumes of data, including personal information, financial data and other confidential information, and the Group's businesses are subject to complex and evolving laws and regulations governing the privacy and protection of data, including Regulation (EU) 2016/679 (General Data Protection Regulation as it applies in the EU and the UK). This data could relate to: (i) the Group's clients, customers, prospective clients and customers and their employees; (ii) clients and customers of the Group's clients and customers and their employees;(iii) the Group's suppliers, counterparties and other external parties, and their employees; and (iv) the Group's employees and prospective employees.

The international nature of both the Group's business and its IT infrastructure also means that data and personal information may be available in countries other than those from where the information originated. Accordingly, the Group must ensure that its collection, use, transfer and storage of data, including personal information, complies with all applicable laws and regulations in all relevant jurisdictions, which could: (i) increase the Group's compliance and operating costs; (ii) impact the development of new products or services or the offering of existing products or services; (iii) affect how products and services are offered to clients and customers; (iv) demand significant oversight by the Group's management; and (v) require the Group to review some elements of the structure of its businesses, operations and systems in less efficient ways. Concerns regarding the effectiveness of the Group's measures to safeguard data, including personal information, or even the perception that those measures are inadequate, could expose the Group to the risk of loss or unavailability of data or data integrity issues and/or cause the Group to lose existing or potential clients and customers, and thereby reduce the Group's revenues. Furthermore, any failure or perceived failure by the Group to comply with applicable privacy or data protection laws and regulations may subject it to potential contractual liability, claims, litigation, regulatory or other government action (including significant regulatory fines) and require changes to certain operations or practices which could also inhibit the Group's development or marketing of certain products or services, or increase the costs of offering them to customers. Any of these events could damage the Group's reputation, subject the Group to material fines or other monetary penalties, make the Group liable to the payment of compensatory damages, divert management's time and attention, lead to enhanced regulatory oversight and otherwise materially adversely affect its business, results of operations, financial condition and prospects.

+ **For further details on data protection regulation applicable to the Group,** refer to the supervision and regulation section.

**f) Algorithmic trading**

In some areas of the investment banking business, trading algorithms are used to price and risk manage client and principal transactions. An algorithmic error could result in erroneous or duplicated transactions, a system outage, or impact the Group's pricing abilities, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.

**g) Processing errors**

The Group's businesses are highly dependent on its ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex and occur at high volumes and frequencies, across numerous and diverse markets in many currencies. As the Group's customer base and geographical reach expand and the volume, speed, frequency and complexity of transactions, especially electronic transactions (as well as the requirements to report such transactions on a real-time basis to clients, regulators and exchanges) increase, developing, maintaining and upgrading operational systems and infrastructure becomes more challenging, and the risk of systems or human error in connection with such transactions increases, as well as the potential consequences of such errors due to the speed and volume of transactions involved and the potential difficulty associated with discovering errors quickly enough to limit the resulting consequences. Furthermore, events that are wholly or partially beyond the Group's control, such as a spike in transaction volume, could adversely affect the Group's ability to process transactions or provide banking and payment services.

Processing errors could result in the Group, among other things: (i) failing to provide information, services and liquidity to clients and counterparties in a timely manner; (ii) failing to settle and/or confirm transactions; (iii) causing funds transfers, capital markets trades and/or other transactions to be executed erroneously, illegally or with unintended consequences; and (iv) adversely affecting financial, trading or currency markets. Any of these events could materially disadvantage the Group's customers, clients and counterparties (including them suffering financial loss) and/or result in a loss of confidence in the Group which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**h) Supplier exposure**

The Group depends on suppliers for the provision of many of its services and the development of technology. Whilst the Group depends on suppliers, it remains fully accountable to its customers and clients for risks arising from the actions of suppliers and may not be able to recover from its suppliers any amounts paid to customers and clients for losses suffered by them. The dependency on suppliers and sub-contracting of outsourced services introduces concentration risk where the failure of specific suppliers could have an impact on the Group's ability to continue to provide material services to its customers. Failure to adequately manage supplier risk could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

# Material existing and emerging risks (continued)

**i) Estimates and judgements relating to critical accounting policies and regulatory disclosures**

The preparation of financial statements requires the application of accounting policies and judgements to be made in accordance with IFRS. Regulatory returns and capital disclosures are prepared in accordance with the relevant capital reporting requirements and also require assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment provisions, taxes, fair value of financial instruments, goodwill and intangible assets, pensions and post-retirement benefits, and provisions including conduct and legal, competition and regulatory matters (refer to the notes to the audited financial statements for further details). There is a risk that if the judgement exercised, or the estimates or assumptions used, subsequently turn out to be incorrect, this could result in material losses to the Group, beyond what was anticipated or provided for. Further development of accounting standards and regulatory interpretations could also materially impact the Group's results of operations, financial condition and prospects.

**j) Tax risk**

The Group is required to comply with the domestic and international tax laws and practice of all countries in which it has business operations. There is a risk that the Group could suffer losses due to additional tax charges, other financial costs or reputational damage as a result of failing to comply with such laws and practice (including where the Group's interpretation of such laws differs from the interpretation of tax authorities), or by failing to manage its tax affairs in an appropriate manner, with much of this risk attributable to the international structure of the Group. In addition, the introduction of new international tax regimes, increasing tax authority focus on reporting and disclosure requirements around the world as well as the digitisation of the administration of tax have the potential to increase the Group's tax compliance obligations further. The OECD and G20 Inclusive Framework on Base Erosion and Profit Shifting has announced plans to introduce a global minimum tax from 2023. UK legislation to implement these rules is expected to apply from 1 January 2024 which will increase the Group's tax compliance obligations. In addition, the US enacted the Inflation Reduction Act in August 2022 which introduced a corporate alternative minimum tax on adjusted financial statement income effective from 1 January 2023. These new tax regimes may require systems and process changes. Any systems and process changes introduce additional operational risk.

**k) Ability to hire and retain appropriately qualified employees**

As a regulated financial institution, the Group requires diversified and specialist skilled colleagues. The Group's ability to attract, develop and retain a diverse mix of talent is key to the delivery of its core business activity and strategy. This is impacted by a range of external and internal factors, such as macroeconomic factors, labour and immigration policy in the jurisdictions in which the Group operates, industry-wide headcount reductions in particular sectors, regulatory limits on compensation for senior executives and the potential effects on employee engagement and wellbeing from long-term periods of working remotely. Failure to attract or prevent the departure of appropriately qualified and skilled employees could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Additionally, this may result in disruption to service which could in turn lead to customer detriment and reputational damage.

+ **For further details on the Group's approach to operational risk,** refer to the operational risk management and operational risk performance sections.

## vi) Model risk

Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. The Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures (including the calculation of impairment), conducting stress testing, calculating RWAs and assessing capital adequacy, supporting new business acceptance, risk and reward evaluation, managing client assets, and meeting reporting requirements.

Models are, by their nature, imperfect representations of reality and have some degree of uncertainty because they rely on assumptions and inputs, and so are subject to intrinsic uncertainty, errors and inappropriate use affecting the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, as was the case during the COVID-19 pandemic, due to the lack of reliable historical reference points and data. For instance, the quality of the data used in models across the Group has a material impact on the accuracy and completeness of its risk and financial metrics. Model uncertainty, errors and inappropriate use may result in (among other things) the Group making inappropriate business decisions and/or inaccuracies or errors in the Group's risk management and regulatory reporting processes. This could result in significant financial loss, imposition of additional capital requirements, enhanced regulatory supervision and reputational damage, all of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

+ **For further details on the Group's approach to model risk,** refer to the model risk management and model risk performance sections.

## vii) Conduct risk

Conduct risk is the risk of poor outcomes for, or harm to, customers, clients and markets, arising from the delivery of the Group's products and services. This risk could manifest itself in a variety of ways, including:

**a) Market conduct**

The Group's businesses are exposed to risk from potential non-compliance with its policies and standards and instances of wilful and negligent misconduct by employees, all of which could result in potential customer and client detriment, enforcement action (including regulatory fines and/or sanctions), increased operation and compliance costs, redress or remediation or reputational damage which in turn could have a material adverse effect on the Group's business, financial condition and prospects. Examples of employee misconduct which could have a material adverse effect on the Group's business include: (i) improperly selling or marketing the Group's products and services; (ii) engaging in insider trading, market manipulation or unauthorised trading; or (iii) misappropriating confidential or proprietary information belonging to the Group, its customers or third parties. These risks may be exacerbated in circumstances where the Group is unable to rely on physical oversight and supervision of employees, noting the move to a hybrid working model for many colleagues.

**b) Customer protection**

The Group must ensure that its customers, particularly those that are vulnerable, are able to make well-informed decisions on how best to use the Group's

# Material existing and emerging risks (continued)

financial services and understand the protection available to them if something goes wrong. Poor customer outcomes can result from the failure to: (i) communicate fairly and clearly with customers; (ii) provide services in a timely and fair manner; (iii) handle and protect customer data appropriately; and (iv) undertake appropriate activity to address customer detriment, including the adherence to regulatory and legal requirements on complaint handling. The Group is at risk of financial loss and reputational damage as a result.

A key area of focus is the implementation and embedment of the FCA's new Consumer Duty, with rules for open products and services due to take effect at the end July 2023. This will impact areas including governance and accountability, MI and reporting, communications, product design and end-to-end customer journeys. The Group may be required to incur significant additional expense in connection with this regulatory change.

### c) Product design and review risk

Products and services must meet the needs of clients, customers, markets and the Group throughout their life cycle. However, there is a risk that the design and review of the Group's products and services fail to reasonably consider and address potential or actual negative outcomes for customers, which may result in customer detriment, enforcement action (including regulatory fines and/or sanctions), redress and remediation and reputational damage. Both the design and review of products and services are a key area of focus for regulators and the Group.

### d) Financial crime

The Group may be adversely affected if it fails to effectively mitigate the risk that third parties or its employees facilitate, or that its products and services are used to facilitate, financial crime (money laundering, terrorist financing, breaches of economic and financial sanctions, bribery and corruption, and the facilitation of tax evasion). UK and US regulations covering financial institutions continue to focus on combating financial crime. Failure to comply may lead to enforcement action by the Group's regulators, including severe penalties, which may have a material adverse effect on the Group's business, financial condition, prospects and reputation.

### e) Conflicts of interest

Identifying and managing Conflicts of Interest is fundamental to the conduct of the Group's business, relationships with Customers, and the markets in which the Group operates. Understanding the Conflicts of Interest that impact or potentially impact the Group enables them to be handled appropriately. Even if there is no evidence of improper actions, a Conflict of Interest can create an appearance of impropriety that undermines confidence in the Group and its Employees. If the Group does not identify and manage Conflicts of Interest (business or personal) appropriately, it could have an adverse effect on the Group's business, customers and the markets within which it operates.

### f) Regulatory focus on culture and accountability

Regulators around the world continue to emphasise the importance of culture and personal accountability and enforce the adoption of adequate internal reporting and whistleblowing procedures to help to promote appropriate conduct and drive positive outcomes for customers, colleagues, clients and markets. The requirements and expectations of the UK Senior Managers Regime, Certification Regime and Conduct Rules reinforce additional accountabilities for individuals across the Group, with an increased focus on governance and rigour, with similar requirements also introduced in other jurisdictions globally. Failure to meet these requirements and expectations may lead to regulatory sanctions, both for the individuals and the Group.

+ **For further details on the Group's approach to conduct risk,** refer to the conduct risk management and conduct risk performance sections.

## viii) Reputation risk

Reputation risk is the risk that an action, transaction, investment, event, decision or business relationship will reduce trust in the Group's integrity and/or competence.

Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputation risk. Stakeholder expectations constantly evolve, and so reputation risk is dynamic and varies between geographical regions, groups and individuals. A risk arising in one business area can have an adverse effect upon the Group's overall reputation and any one transaction, investment or event (in the perception of key stakeholders) can reduce trust in the Group's integrity and competence. The Group's association with sensitive topics and sectors has been, and in some instances continues to be, an area of concern for stakeholders, including: (i) the financing of, and investments in, businesses which operate in sectors that are sensitive because of their relative carbon intensity or local environmental impact; (ii) potential association with human rights violations (including combating modern slavery) in the Group's operations or supply chain and by clients and customers; and (iii) the financing of businesses which manufacture and export military and riot control goods and services.

Reputation risk could also arise from negative public opinion about the actual, or perceived, manner in which the Group (including its employees, clients and other associations) conducts its business activities, or the Group's financial performance, as well as actual or perceived practices in banking and the financial services industry generally. Modern technologies, in particular, online social media channels and other broadcast tools that facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the distribution and effect of damaging information and allegations. Negative public opinion may adversely affect the Group's ability to retain and attract customers, in particular, corporate and retail depositors, and to retain and motivate staff, and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition to the above, reputation risk has the potential to arise from operational issues or conduct matters which cause detriment to customers, clients, market integrity, effective competition or the Group (refer to 'v) Operational risk' above).

+ **For further details on the Group's approach to reputation risk,** refer to the reputation risk management and reputation risk performance sections.

## ix) Legal risk and legal, competition and regulatory matters

The Group conducts activities in a highly regulated global market which exposes it and its employees to legal risk arising from: (i) the multitude of laws and regulations that apply to the businesses it operates, which are highly dynamic, may vary between jurisdictions and/or conflict, and may be unclear in their application to particular circumstances especially in new and emerging areas; and (ii) the diversified and evolving nature of the Group's businesses and business practices. In each case, this exposes the Group and its employees to the risk of loss or the imposition of penalties, damages or fines from the failure of members of the Group to meet their respective obligations, including legal, regulatory or contractual requirements. Legal risk may arise in

# Material existing and emerging risks (continued)

relation to any number of the material existing and emerging risks identified above.

A breach of applicable legislation and/or regulations by the Group or its employees could result in criminal prosecution, regulatory censure, potentially significant fines and other sanctions in the jurisdictions in which the Group operates. Where clients, customers or other third parties are harmed by the Group's conduct, this may also give rise to civil legal proceedings, including class actions. Other legal disputes may also arise between the Group and third parties relating to matters such as breaches or enforcement of legal rights or obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in the Group being liable to third parties or may result in the Group's rights not being enforced or not being enforced in the manner intended or desired by the Group.

Details of legal, competition and regulatory matters to which the Group is currently exposed are set out in Note 26. In addition to matters specifically described in Note 26, the Group is engaged in various other legal proceedings which arise in the ordinary course of business. The Group is also subject to requests for information, investigations and other reviews by regulators, governmental and other public bodies in connection with business activities in which the Group is, or has been, engaged and may (from time to time) be subject to legal proceedings and other investigations relating to financial and non-financial disclosures made by members of the Group (including, but not limited to, in relation to ESG disclosures). Additionally, due to the increasing number of new climate and sustainability-related laws and regulations (or laws and regulatory processes and policies (including approach to fiduciary duties) seeking to protect the energy and other high carbon sectors from any risks of divestment or challenges in accessing finance), growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including the Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues. Furthermore, there is a risk that shareholders, campaign groups, customers and other interest groups could seek to take legal action against the Group for financing or contributing to climate change and environmental degradation.

The outcome of legal, competition and regulatory matters, both those to which the Group is currently exposed and any others which may arise in the future, is difficult to predict (and any provision made in the Group's financial statements relating to those matters may not be sufficient to cover actual losses). In connection with such matters, the Group may incur significant expense, regardless of the ultimate outcome, and any such matters could expose the Group to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional litigation; criminal prosecution; the loss of any existing agreed protection from prosecution; regulatory restrictions on the Group's business operations including the withdrawal of authorisations; increased regulatory compliance requirements or changes to laws or regulations; suspension of operations; public reprimands or censure; loss of significant assets or business; a negative effect on the Group's reputation; loss of confidence by investors, counterparties, clients and/or customers; risk of credit rating agency downgrades; potential negative impact on the availability and/or cost of funding and liquidity; and/or dismissal or resignation of key individuals. In light of the uncertainties involved in legal, competition and regulatory matters, there can be no assurance that the outcome of a particular matter or matters (including formerly active matters or those arising after the date of this Annual Report) will not have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

# Principal risk management

## Climate risk management

The impact on Financial and Operational Risks arising from climate change through physical risks, risks associated with transitioning to a lower carbon economy and connected risks arising as a result of second order impacts of these two drivers on portfolios.

### Overview

Given the risks associated with climate change, and to support the Group's ambition to be a net zero bank by 2050, climate risk became a Principal Risk in January 2022. To support the embedment of the Principal Risk, in 2022 the Group delivered a Climate Risk Plan with three overarching objectives:

1. Governance Framework: Establish a Climate Risk Committee, a Climate Risk Controls Forum, and refresh the Board Risk Committee reporting
2. Scenario Analysis: Build out the vision and plan for undertaking scenario analysis exercises. This involved developing a climate scenario analysis framework
3. Carbon Modelling: Expand the BlueTrack™ model for measuring and tracking financed emissions to cover our automobiles and residential real estate portfolios, in addition to energy, power, cement and steel.

### Organisation, roles and responsibilities

On behalf of the Board, the Board Risk Committee (BRC) reviews and approves the Group's approach to managing the financial and operational risks associated with climate change. Reputation risk is the responsibility of the Board, which directly handles the most material issues facing the Group. Broader sustainability matters and other reputation risk issues associated with climate change are coordinated by the Sustainability Team. The Head of Climate Risk reports directly to the Group Chief Risk Officer.

The Group Risk Committee (GRC) is the most senior executive body responsible for review and challenge of risk practices and risk profile, for climate risk and other principal risk types.

To support the oversight of Barclays' climate risk profile, a Climate Risk Committee (CRC) has been established as a sub-committee of the GRC. Authority of the CRC is delegated by the GRC.

CRC is chaired by Head of Climate Risk. CRC has reviewed and approved a range of updates including a refreshed Climate Risk Vision, updates from each of the financial and operational risks and from the material legal entities of the firm, along with key regulatory, policy and legal themes, the risk register and appetite statement and constraint, and reviewed the control environment.

The Climate Risk Control Forum (CRCF) was established in July 2022 and escalates to GRC via the Group Controls Committee. The purpose of the CRCF is to oversee the consistent and effective implementation and operation of the Barclays Controls Framework as relating to Climate risk. It reviews the control environment relating to Climate risk, including risk events, policy and issues management. Climate risk assurance groups have been established and are responsible for performing Climate risk specific reviews to ensure we are continually improving and addressing identified issues in our risk practices.

Barclays entities, namely Barclays Bank UK, Barclays International, Barclays Bank Ireland and the US Intermediate Holding Company, also continued to implement Climate risk within their frameworks, where Heads of Climate Risk have been appointed.

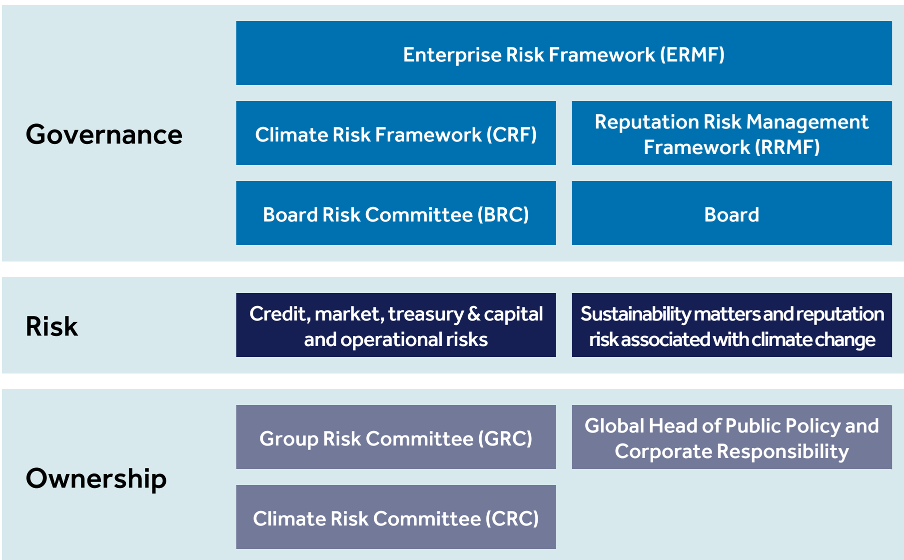
The elevation of climate risk to Principal Risk included establishment of governance elements, including:

- a Climate Risk Framework that defines climate risk and summarises the approach to identification, measurement, monitoring and reporting of climate risk
- Climate Risk Appetite and constraint at Group level established in line with the Group's risk appetite approach and informed by scenario analysis
- Climate Risk Register is used to inform risk appetite. This includes a breakdown of key risk drivers for physical and transition risks, and materiality ratings which are inferred from the results of the 2020 climate Internal Stress Test and 2021 Bank of England's Climate Biennial Exploratory Scenario (CBES). The Climate Risk Register continues to align with the Group's Risk Register Taxonomy.

+ **Further details on our Scenario Analysis can be found** from page 128

Climate risk across Financial and Operational Risks is managed via a Climate Change Financial Risk and Operational Risk Policy (CCFOR), which is embedded in each of the Financial and Operational Principal Risk Frameworks.

Climate risk across Model, Conduct, Reputation and Legal Principal Risks are out of the scope of the Climate Risk Framework and continue to be managed under their respective Principal Risk Frameworks.



# Principal risk management (continued)

### Risk appetite

In 2022, as part of establishing Climate risk as a principal risk, Barclays defined a risk appetite statement and constraint for climate risk. The statement outlines that Barclays views climate change as a driver of financial and operational risk. Barclays has appetite to manage climate risk in line with its climate ambition and to reduce financed emissions in line with disclosed targets. Targets to 2025 are set for Energy and Power. Targets to 2030 are set for Energy, Power, Cement, Steel and Automotive Manufacturing.

An assessment of progress to reduce financed emissions against the disclosed targets was made. It noted that reaching even the lower emissions reduction in the disclosed ranges may prove challenging and that a clearer forward plan be defined to set out the range of management actions that could be taken to meet the disclosed target ranges, including a more detailed understanding of client transition expectations and the external dependencies and variables beyond Barclays' control that may determine the pace of transition. Work has commenced on a Client Transition Framework which will support our evaluation of our corporate clients' current and expected future progress as they transition to a low-carbon business model and we are continuing to invest in developing tools that will enhance the quality of our forecasting and better understand the potential volatility in our progress over the remaining target period.

**+ Further details on Barclays' disclosed targets can be found in the Climate and Sustainability report**

The table below sets out how climate risk is integrated across Barclays using the ERMF aligned Climate Risk Framework, CCFOR and the Climate Change Standard.

**Enterprise Risk Management Framework (ERMF)**

**Climate Risk Framework**

| | | Climate Change Financial Risk and Operational Risk Policy | | | | Climate Change Standard |
|---|---|---|---|---|---|---|
| **Responsibilities** | **Climate Risk** | **Credit Risk** | **Market Risk** | **Treasury and Capital Risk** | **Operational Risk** | **Reputation Risk** |
| | • Provide climate horizon scanning information and emerging trends to BRC and Principal Risk Leads<br>• Recommend risk appetite statement, constraints and exclusions to BRC<br>• Define areas of concern and recommend scenario analysis priorities<br>• Lead the development of climate-specific risk methodologies<br>• Interpret stress test results for relevance as drivers of risk<br>• Review and challenge risk type approaches and support consistency across risk types<br>• Aggregate and monitor a central climate risk view across in scope risk types | • Monitor portfolio level exposure to the physical and transition risks of climate change<br>• Review individual obligors' exposure to climate risk via the Climate Lens questionnaire<br>• Assess climate risk within Sovereign Credit Risk reviews<br>• Include material exposures to climate risk within the Internal Capital Adequacy Assessment Process (ICAAP)<br>• Oversight by Legal Entity Climate Risk Forums and relevant Risk Management Committees as appropriate, including regular climate risk reporting up to Board Risk Committee level | • Identify and Assess climate-related risk factors<br>• Apply stress scenarios, assess stress losses and set risk limits<br>• Oversight by Market Risk Committee and Board Risk Committee | • Identify exposure to climate risk<br>• Consider key risk indicators and limits to support risk management<br>• Include in ICAAP and ILAAP<br>• Oversight by Treasury & Capital Risk Committee and Board Risk Committee | • Integrate climate change across different risk categories, e.g. Operational Recovery Planning and Premises<br>• Include climate change within risk assessment processes including Strategic Risk Assessment | • Outline minimum requirements and controls for Reputation Risk management relating to client relationships or transactions<br>• Outline the expected business behaviours in relation to these issues<br>• Outline the approach to enhanced due diligence. |
| **Ownership** | Climate Risk Accountable Officer | Credit Risk Accountable Officer | Market Risk Accountable Officer | Treasury & Capital Risk Accountable Officer | Operational Risk Accountable Officer | Group Head of Sustainability |
| | | + **Read more on** pages 285-286 | + **Read more on** pages 286-287 | + **Read more on** pages 287-288 | + **Read more on** pages 288-289 | + **Read more on** page 289 |

# Principal risk management (continued)

## Climate-related Risk Management Processes

| | Credit Risk | Market Risk | Treasury and Capital Risk | Operational Risk |
|---|---|---|---|---|
| **Frequency of assessment** | Annually | Quarterly | Various (quarterly for pensions, IRRBB and liquidity risk; annually for capital risk) | Annually |
| **Risk identification** | Exposure in mortgage portfolio identified through a concentration risk framework.<br><br>Exposure in BBPLC Identified as part of sovereign, portfolio and obligor credit annual reviews. | Identified by assessing climate-related risk factors across asset classes, sectors and geographies, and aggregating market risk exposures from climate-related risks. | Identified through risk assessment activity across certain industries and asset classes to analyse and assess exposures which may be impacted by climate-related risks. | Confirmed operational risks associated with climate change are included in the Bank's Operational Risk Taxonomy. Climate risks are included within the Strategic Risk Assessment process. |
| **Risk assessment** | Portfolios are monitored through regular reporting of climate metrics and are assessed against mandates and limits where appropriate<br><br>Clients in elevated risk sectors above a threshold exposure will have their credit risk exposure to Climate risk qualitatively assessed through the Credit Climate Lens questionnaire.<br><br>Future exposure to Climate risk as a driver to Credit risk is quantified through scenario analysis and stress testing exercises.<br><br>In addition to the Credit Climate Lens questionnaire, Sovereign Credit Reviews are also carried out for Sovereigns above a threshold exposure to assess their susceptibility to Climate risks. | Measured by using adverse multi-asset stress scenarios applied to individual risk factors reflecting climate risks across sectors, countries and regions. | Measured as part of stress testing and key risk indicator monitoring. | Established reporting on internal and external climate-related risk events to the Climate Risk Control Forum. Risk tolerances for premises and resilience risks are reviewed so these adequately capture climate-related risk drivers. |

# Principal risk management (continued)

## TCFD Climate risk management

## Credit Risk

### Definition

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

### Climate Risk Identification

Risk identification is driven by assessing portfolios' sensitivity and susceptibility to the financial and operational risks of climate change. Sectors are categorised into elevated and non-elevated risk. These sectors have been identified through the analysis of Barclays Industrial Classifications by portfolio, informed by results of scenario analysis exercises.

Across corporate and industrial sectors, elevated risk sectors are those with high exposure to both physical and transition risks of climate change. These are defined in the Climate Change Financial Risk and Operational Risk (CCFOR) Policy and apply across the Group. This assessment is updated on an annual basis. The list of Elevated Sectors is revisited on an annual basis to ensure that the risks identified as impacting the sector are still accurately articulated and assessed, and that emerging risks are being captured within the assessment.

Each sector is assessed by climate risk drivers and impacts. Physical and transition risk drivers and impacts were designed internally and are based on rating agencies' climate change assessments, recommendations of the TCFD and our involvement in UNEP FI's TCFD Banking Pilot Project Phase II.

To assist in determining the level of potential credit risk arising from climate change for Sovereigns with material exposure, risks are reviewed annually at a minimum.

### Climate Risk Assessment

#### Corporate Risk Assessment

In 2019,the Credit Climate Lens was developed to identify and assess how Climate Change may impact the Group's wholesale credit risk exposures, against physical and transition risks.

The Credit Climate Lens review is completed for wholesale clients operating in elevated risk sectors with material exposure of more than £10m (£5m for BUK clients). It is completed by either Banking or Credit Risk teams across all Barclays entities.

| Risk Type | Focus area | Sample question |
|---|---|---|
| Physical | Acute: Frequency and intensity of extreme weather events | What is the exposure of operations and supporting assets to direct damage from extreme weather events? |
| | Reducing availability of financial protection/insurance | What is the severity of the potential lack of insurance covering business interruptions caused by extreme weather events? |
| Transition | Regulatory, policy and supervisory change | Does the company have an adaptation plan in place? |
| | Technology change | What is the likelihood of accelerating contingent liabilities, with alternative technologies displacing existing operations and supporting assets? |

Each lens question has a threshold assigned to it that corresponds to a rating of Low, Moderate or High risk. These are aggregated to provide an overall rating for the client with rationale for the assigned rating, and comments on both physical and transition risks.

In 2022, a Climate Lens review was carried out on annual review, origination or other purpose facility review of 382 transactions in Barclays International. In Barclays UK, 181 clients have been assessed by Relationship Teams using the Credit Climate Lens.

As part of Barclays ongoing focus to review implementation and adherence to principal risk frameworks, and our drive to develop our capabilities in this area, the climate lens will be evolved to further improve implementation and to become more quantitative.

#### Non-Corporate Risk Assessment

To support our scenario analysis modelling, in 2021 we developed risk factor assessments for Municipalities, Financial Institutions and Non-Bank Financial Institutions, building on initial work to develop our Sovereign approach. Each of these portfolios uses a risk matrix approach across tailored physical, transition and connected risk factors.

These factors include, for example, the proportion of institution's exposure to sectors exposed to climate risk, reputation risk scores from climate-related issues.

In addition to the risk assessment completed for these areas, scenario analysis and stress testing are used as primary tools to support climate risk assessment and the overall resilience of Barclays' strategy.

#### Sovereign Risk Assessment

Our assessment of climate risk for sovereigns includes a risk factors matrix incorporating physical, transition and connected risk factors and is part of our ongoing risk identification as part of the CCFOR Policy challenges, including seven Transition Risk factors, three Physical Risk factors and three Economic & Fiscal Strength factors. A number of external metrics have also been utilised, including the University of Notre Dame's Global Adaptation Index and Climate Change Performance Index – Climate Policy. These factors are then applied to all countries Barclays has exposure to. Sovereigns that are most impacted to these factors are monitored on an ongoing basis.

### Climate Risk Management

On an annual basis, where an overall Credit Climate Lens rating for a client is assessed as Medium or High, clients are referred to the Climate Risk team. Following their analysis, the Climate Risk team provides recommendations and guidance on how to proceed, addressing any issues identified during the EDD process and the results of EDD are factored into credit decisions. Information and insights gained from the EDD and Credit Climate Lens rating process also inform portfolio review meetings, which itself forms part of the overall risk appetite control framework.

### Climate Risk Reporting

A Group-level Climate Risk Dashboard is presented to the Climate Risk Committee and Board Risk Committee on a quarterly basis, informing senior management and the Board of current climate risk exposures, concentrations and to monitor trends across both sectors, portfolios and regions. The dashboard was updated in 2022 to incorporate learnings from the Bank of England's Climate Biannual Exploratory Scenario (CBES). It includes exposure to portfolios with elevated transition or physical risk and progress against sector emissions targets. Climate

# Principal risk management (continued)

risk dashboards were also developed for material legal entities in 2022.

### Portfolio Reviews and Mandate & Scale

Mandate & Scale Exposure Controls are a portfolio risk management tool and form part of the overall risk appetite control framework to review and control business activities. Mandates and scales are introduced to avoid the build-up of adverse exposure concentrations within portfolios through ensuring exposure is within Barclays' mandate (i.e. aligned with expectations), and of an appropriate scale (relative to the risk and reward of the underlying activities).

Limits and triggers are put in place to avoid concentrations that may lead to unexpected losses detrimental to the stability of the relevant business or the Group. They take the broader economic outlook, wider Group strategy, and risk/return considerations into account and are set for a number of sectors and products.

Climate risks have been integrated into Mandate & Scale annual credit portfolio reviews for elevated risk sectors since 2020. In 2021 Barclays Bank UK introduced a flood risk mandate within the UK Mortgage portfolio to monitor the percentage of properties (stock) in high flood risk areas. This mandate was enhanced in 2022, and a high subsidence risk mandate has also been introduced to the UK Mortgage portfolio.

As a part of the bank's general approach to portfolio management, Barclays considers macroeconomic and other drivers and events which may impact on certain sectors or geographies. This includes impacts on the identified climate elevated risk sectors and may lead to action for specific sectors or geographies. For example, in the oil & gas sector, we have considered longer-term impacts from climate transition and physical risks into our assessments and approach to the sector. In keeping with our overall aim to maintain a portfolio with a high credit quality, we take a number of considerations into account for our oil & gas portfolio – including location of assets, the economic profile (profitability) of assets, geopolitical risks, size and resilience of counterparties, and liquidity considerations.

Physical, transition and connected risks arising from climate change are considered as part of the wider risk management decision process to account for the potential credit risk consequences of climate change on affected portfolios. In 2022, portfolio deep dives were conducted to supplement the existing analysis provided in the existing Mandate & Scale reviews. This included identifying and evaluating the credit risk implications of Climate risk on elevated sectors within the portfolio.

## Market Risk

### Definition

The risk of loss arising from potential adverse changes in the value of the Group'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.

### Climate Risk Identification

Climate change may lead to Market risk through a disorderly transition to a low-carbon economy or via physical climate events and shifts in supply and demand for financial instruments, which may then impact market prices for susceptible sectors or countries.

Climate-related risks are determined at a Group level and used in the Market risk identification process.

The table below outlines the climate-related risks, transition and physical, considered for all market risks under each asset class

| Asset Class | Physical Risk | | Transition Risk |
|---|---|---|---|
| | Country impact | Sector impact | Sector impact |
| **Traded credit**<br><br>**Securitised products**<br><br>**Equities**<br><br>**Macro (FX, rates, commodities)** | Countries most susceptible to climate change | • Sectors reliant on stable weather conditions and power/water supply (e.g. agriculture, soft commodities, tourism, mining, manufacturing, transportation)<br>• Financial protection – insurance against weather events | • Carbon intensive sectors:<br>– Primary producers (e.g. coal miner, oil and gas)<br>– Consumers (e.g. petrochemicals, transport)<br>– Supply chain (e.g. auto, retailer)<br>• Additional cost to meet new regulatory requirements, financial penalties, carbon taxes, green energy subsidies<br>• Increased capex/cost for primary producers and consumers due to:<br>– Technological/regulatory-driven shifts in consumer demand<br>– Tightening efficiency/emissions<br>• Increases in cost, impaired quality of goods and speed of delivery due to weaknesses within the supply chain, need for alternative suppliers/products |

# Principal risk management (continued)

### Climate Risk Assessment

Market risk arising from climate change is measured by applying a range of stress scenarios, that stress the core risks susceptible to climate change over long and short-term horizons to individual risk factors.

Initially a Climate Internal Stress Test (Climate-IST) was run in 2020 to further inform understanding of climate risks. Market Risk performed an assessment of the impact of a disorderly transition to a low-carbon economy on the market risk portfolios across Barclays Group.

In addition to the main Markets portfolios, Cross Markets and Commodities portfolios were also included. This risk assessment was enabled by enhancements in system technology allowing the exploration of climate change impact on less-climate risk exposed sectors.

Market Risk continues to run such Climate-IST scenarios every quarter, and has further refined the existing sector/ country taxonomy to reflect the climate risk sensitivity. Although Market Risk was out of scope of the 2021 Bank of England Climate Biennial Exploratory Scenario (CBES), the existing Market Risk scenario analysis has been more closely aligned to the CBES scenarios.

### Market Risk Climate Scenario Narrative

The scenario is designed to explore a disorderly transition to a low-carbon economy until 2050, assuming insufficient progress in climate policy changes until 2030.

In 2030, the climate policy changes are put in place at speed in order to meet the global climate targets by 2050 which causes global macroeconomic shock and adverse market reaction in 2030, followed by markets recovery in 2031 (no other risk-off episodes until 2050):

- severe and prolonged global recession, elevated risk premium, rise in unemployment and borrowing cost, sharp drop in global demand and in economic activity, housing market slump
- supply disruptions alongside currency weakness and trade war causes sharp increase in inflation. Central Banks attempt to contain rising prices by hiking the Bank Rate by several percentage points. This causes the usual "safe-havens" such as Treasuries, Gilts or Bonds to sell off along with Equity and Credit markets
- the scenario is meant to test the bank's ability to absorb a large shock by combining Transition and Physical risks.

Stress losses arising from this scenario measure and aggregate climate-related risks, and are calculated quarterly.

### Climate Risk Management

The pattern of stress losses arising from the stress scenario is used to estimate and set ongoing limits, consistent with the Board-approved maximum stress loss capacity for Market risk, under which Barclays monitors and controls Market risk arising from climate change. These limits are reviewed on an annual basis and must include consideration of potential portfolio impacts arising from climate-related risks.

Furthermore, climate-related Market risk is managed through ongoing monitoring that is reported through the existing risk committee structures so that key risk indicators are monitored and escalated as required.

## Treasury and Capital Risk

### Definition

#### Capital Risk

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

#### Pension Risk

The risk that the Group's capital and/or distributable earnings are reduced due to changes in the value of the Group's defined benefit obligations or the assets funding these defined benefit obligations.

#### Liquidity Risk

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

#### Interest Rate Risk in the Banking Book (IRRBB)

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

### Climate Risk Identification

Climate change may lead to additional levels of risk within Treasury & Capital Risk through physical, transition or connected climate risks. Climate related risks within Treasury & Capital Risk are identified as part of the climate risk register preparation. The climate related risks are identified using severe yet plausible climate related scenarios to provide qualitative and/or quantitative impacts on, or in addition to financial risk drivers.

### Climate Risk Assessment

Treasury & Capital Risk have focused on building awareness of how the areas within our risk oversight may be impacted by physical, transition and connected risks, and calibration of key indicators for regular reporting and monitoring. The function has continued to build upon our understanding of climate risks, including through Barclays' participation in CBES and the addition of climate risk elements to internal stress tests.

#### Capital Risk

Barclays' capital position is indirectly subject to climate risk through Group-wide exposures across all risk types. Treasury & Capital Risk oversees the bank's capital management and planning activities and use the output of Group-wide climate stress tests to inform our understanding of how capital management may be impacted. Further consideration to climate risk has also been incorporated into the Group's ICAAP narrative.

#### Pension Risk

Pension exposures are subject to climate stresses impacting market conditions. Pension holdings are primarily affected by interest rates, inflation and credit spreads which may be impacted by longer term climate change effects. To identify key areas of focus pension scheme assets have been categorised based on their country and industry risk through the lens of climate change.

#### Liquidity Risk

Barclays proactively reviews its approach to managing funding and liquidity risks that may arise from certain physical risks such as extreme weather events, or transition risks such as a move to a low-carbon economy. An enhanced risk assessment has been performed during 2022 to explore the potential vulnerabilities to certain industries and asset classes that may be subject to a lack of available liquidity under a climate stress scenario. Additional scenario analysis has been carried out during 2022 to further explore specific climate related liquidity risks. Further consideration to climate risk has also been incorporated into the Group's ILAAP.

#### Interest Rate Risk in the Banking Book (IRRBB)

Fair value positions such as those within the Liquid Asset Buffer are exposed to

# Principal risk management (continued)

general market conditions which could deteriorate under longer term climate stress. Physical or transition risks may lead to government fiscal responses that would impact market volatility. Building on analysis from 2021 exercises, updates have been made to climate related categorisation of investments and subsequent stress methodologies specific to climate risk reporting.

Fair value private equity positions managed by the Principal Investments team are most likely to be impacted by stresses to energy markets and carbon transition changes. The future investment strategy of the team and long-term revenue of these investments may be influenced by changing climate and legislative conditions. In line with Barclays' strategy, the team has continued to increase exposure to new initiatives through the Sustainable Impact Capital programme. At the same time the divestment of legacy natural resource investments has accelerated and total exposure to the Oil & Gas sector has significantly decreased.

Accrual Banking Book Net Interest Income may be moderately impacted by climate change through both physical and transition risks. Such risks could materialise through impact on deposit levels and lead to potential changes in composition and performance of asset portfolios, pricing and changes to longer term interest rate risk management strategies. In 2021, an assessment was completed focusing on the economic impact of potential forced unwind of structural hedges on the deposit base as a result of significant outflows triggered by concerns about Barclays' climate change credentials.

### Climate Risk Management

Insights on climate-related risks and potential impacts are incorporated as appropriate to inform the setting of relevant key indicators and risk limits, which are overseen by the Treasury and Capital Risk Committee on a quarterly basis. Barclays' assessment of capital and liquidity requirements factors in climate considerations as part of Barclays annual ICAAP and ILAAP submissions.

## Operational Risk

### Definition

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

### Climate Risk Identification

From a climate risk perspective, Barclays is exposed to climate change risks in its operations, either directly or via the operations of its suppliers. This exposure is predominantly related to physical risks such as extreme weather events (e.g. cyclones, hurricanes and floods), along with longer-term changes in weather patterns (e.g. increased mean temperatures, sea levels, changing rain patterns, water stress/scarcity or drought conditions).

The Operational Risk Framework includes risks that are associated with climate change as well as the activities required to identify, measure and manage these risks as part of the operational risk profile. Operational Risk maintains a taxonomy of operational risks on behalf of the Group, which includes the operational risks across Principal Risks (e.g. Conduct risk, Legal risk, Model risk) as well as operational failures associated with the financial Principal Risks (Credit, Market, Treasury and Capital).

The Operational Risk Taxonomy forms part of the Operational Risk Framework. This framework is reviewed and updated, where appropriate, on an annual basis. As physical risk events related to extreme weather events could impact Barclays' operational capabilities, climate change is already integrated into the Operational Risk Framework. The risks categories most likely to be impacted by physical risks are Premises Risk and Operational Recovery Planning.

#### Premises Risk

Ensures that operational risk requirements are understood, monitored and mitigated appropriately, and are managed to ensure compliance with relevant legal and regulatory requirements, including any required authorisations, permissions and licenses. Premises risk is managed under the Group Property Policy and Standards, which outline Barclays' approach to addressing environmental risks with respect to the availability of operational premises. This Policy defines a low tolerance threshold for premises unavailability which covers the risk of the physical impacts of climate change, and aims to ensure that Barclays' premises do not become unavailable and/or do not affect at least one Barclays product/service for a sustained period of time. Additionally, any potential strategic site's exposure to extreme weather events is considered. Similarly, this Policy defines no tolerance for failures in Barclays Premises that result, or are likely to result, in harm to the environment.

#### Operational Recovery Planning

An integral part of the firm's approach to Operational Resilience. The purpose is to enable Barclays to minimise the impact of disruption when it occurs, which could be caused by climate related events. Barclays maintains and annually reviews recovery plans and capabilities.

### Climate Risk Assessment

Operational Risk continues to identify, manage and measure climate risk as part of the existing operational risk profile through its business as usual activities. These activities include working with Premises and Operational Recovery Planning Horizontal Owners to identify and respond to any new emerging climate risk related impacts or regulatory requirements, and consideration of changes to approach or taxonomy in line with regulatory requirements. We continue to explore different approaches to provide a quantification assessment, albeit challenges for quantification relating to the lack of appropriately granular, business-relevant data and tools remain. Quantifying operational risk through existing structured scenarios would allow us to better examine and size the potential incremental impact arising from climate risks. However, the challenge of determining scenarios that are business orientated, sourcing available and relevant information to support the effort, and connecting the given scenario to the idiosyncrasies of operational risk, remains a factor under consideration.

In 2022, a third party organisation conducted a climate risk assessment on our mission critical buildings and data centres. The results of the analysis identified risks and opportunities. These included physical and transition risks such as flooding and market risks and opportunities such as embedding energy and material efficiency and installing low carbon heating and cooling technologies. Furthermore, the assessment identified the potential average annual loss (AAL) to our operational portfolio following different climate scenarios. In a low emissions scenario, it was estimated we have an AAL of £40 million and in a high emissions scenario it was estimated we could experience an AAL of £60 million. These findings will inform our risk management and decision-making process.

Additionally, Barclays has a portfolio of structured scenarios that are assessed for Group and certain Legal Entities, for which Operational Risk coordinates the process. These scenarios map to the risk taxonomy and cover a range of risks where climate

# Principal risk management (continued)

implications could be an incremental factor. The potential effect of climate change has been considered qualitatively in the latest scenario assessment cycle, where climate has been found not to be an immediate factor impacting most scenarios, although greenwashing at product level, and disclosures about our green credentials, are two topical areas subject to further analysis.

### Climate Risk Management

The Group Property Standard outlines Barclays' approach to addressing climate risks with respect to the availability of operational premises. Additionally, exposure to extreme weather events is considered during the design or refurbishment of new and existing strategic sites.

The Operational Recovery Planning standards outline Barclays' requirements to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption. Our focus is on continuing to deliver Important Business Services to customers and clients, and minimise any impact on the wider financial system, in the event of operational disruption. The Operational Recovery Planning risk from climate change is expected to manifest through premises and supplier risk in the first instance, and if this leads to operational disruption, our operational recovery planning framework would help mitigate the impacts through invocation of crisis management, and response and recovery plans. Our approach to Operational Recovery Planning evolves in response to the changing threat landscape, and this will include consideration of climate change and its associated impacts.

Barclays deploys and validates appropriate recovery strategies for its critical processes, including the ability to transfer processing to alternative locations or premises. In addition to maintaining response plans in the event of a third party disruption, for our third party service providers Operational Recovery Planning requirements are articulated through our Supplier Control Obligations (SCOs). Each third party service provider is required to attest to their compliance with the SCOs on an annual basis and further assurance is undertaken on a risk-based approach.

Management, reporting and oversight is in place to monitor internal and external risk events that may be attributable to climate change. Operational Risk continues to identify, manage and measure climate change risks as part of the existing operational risk profile through business as usual activities.

This includes working with Premises and Operational Recovery Planning Horizontal Owners to identify and respond to any new emerging climate change related impacts or regulatory requirements, and consideration of changes to approach or taxonomy in line with regulatory requirements.

## Reputation Risk

### Definition

Reputation risk is the risk that an action, transaction, investment, event, decision or business relationship will reduce trust in the Group's integrity and/or competence. Barclays is linked to clients across a wide range of sectors and geographies, including those that have the potential to cause or contribute to significant adverse impacts on the climate.

### Climate Risk Management

Environmental and social risks are governed and managed through our ERMF, setting our strategic approach for risk management by defining standards, objectives and responsibilities for all areas of Barclays. The ERMF is complemented by a number of other frameworks, policies and standards, all of which are aligned to individual Principal Risks.

Our assessment of environmental and social risks not only helps safeguard our reputation, which supports longevity of the business but also enhances our ability to serve our clients and support them in improving their own sustainability practices and disclosures. Our approach to identification, assessment/escalation and monitoring can be located within the Managing Impact section of this report (from page 253) while the oversight and management of climate-related issues are embedded with the Barclays governance framework (from page 141).

## Credit risk management (audited)

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

### Overview

The credit risk that the Group faces arises from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts with clients; trading activities, including: debt securities, settlement balances with market counterparties, fair value through other comprehensive income (FVOCI) assets and reverse repurchase loans.

Credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk
- identify, assess and measure credit risk clearly and accurately across 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.

### Organisation, roles and responsibilities

The first line of defence has primary responsibility for managing credit risk within the risk appetite and limits set by the Risk function, supported by a defined set of policies, standards and controls. In the entities, business risk committees (attended by the first line) monitor and review the credit risk profile of each business unit where the most material issues are escalated to the Retail Credit Risk Management Committee, Wholesale Credit Risk Management Committee and Group Risk Committee.

Wholesale and retail portfolios are managed separately to reflect the differing nature of the assets; wholesale balances tend to be larger and are managed on an individual basis, while retail balances are greater in number but lesser in value and are, therefore, managed in aggregated segments.

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

# Principal risk management (continued)

credit risk measurement models. The credit risk management teams in each legal entity are accountable to the relevant Legal Entity CRO, who reports to the Group CRO.

For wholesale portfolios, credit risk managers are organised in sanctioning teams by geography, industry and/or product. In wholesale portfolios, credit risk approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers assigned the higher levels of delegated authority. The largest credit exposures, which are outside the Risk Sanctioning Unit or Risk Distribution Committee authority, require the support of a legal entity Senior Credit Officer. For exposures in excess of the legal entity Senior Credit Officer's authority, approval by Group Senior Credit Officer/Board Risk Committee is also required. The Group Credit Risk Committee, attended by legal entity Senior Credit Officers, provides a formal mechanism for the Group Senior Credit Officer to exercise the highest level of credit authority over the most material Group single name exposures.

## Credit risk mitigation

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

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

### Netting and set-off

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

### Collateral

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

- home loans: a fixed charge over residential property in the form of houses, flats and other dwellings
- wholesale lending: a fixed charge over commercial property and other physical assets, in various forms
- other retail lending: includes charges over motor vehicles and other physical assets; second lien charges over residential property; and finance lease receivables
- derivatives: the Group also often seeks to enter into a margin agreement (e.g. Credit Support Annex) with counterparties with which the Group has master netting agreements in place. These annexes to master agreements provide a mechanism for further reducing credit risk, whereby collateral (margin) is posted on a regular basis (typically daily) to collateralise the mark to market exposure of a derivative portfolio measured on a net basis
- reverse repurchase agreements: collateral typically comprises highly liquid securities which have been legally transferred to the Group subject to an agreement to return them for a fixed price
- financial guarantees and similar off-balance sheet commitments: cash collateral may be held against these arrangements.

### Risk transfer

A range of instruments including guarantees, credit insurance, credit derivatives and securitisation can be used to transfer credit risk from one counterparty to another. These mitigate credit risk in two main ways:

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

+ **Detailed policies are in place to appropriately recognise and record credit risk mitigation. For more information,** refer to pages 118 to 120 of the Barclays PLC Pillar 3 Report 2022 (unaudited).

## Governance and oversight of ECLs under IFRS 9

The Group's organisational structure and internal governance processes oversee the estimation of ECL across several areas, including: i) setting requirements in policy, including key assumptions and the application of key judgements; ii) the design and execution of models; and iii) review of ECL results.

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

ii) ECL is estimated in line with internal policy requirements using models which are validated by a qualified independent party to the model development area, the Independent Validation Unit (IVU), before first use and on a regular basis, at a minimum every three years. Each model is designated an owner who is responsible for:

- model maintenance: monitoring of model performance including backtesting by comparing predicted ECL versus flow into stage 3 and coverage ratios; proposing material changes for independent IVU approval; and recalibrating model parameters on more timely data
- proposing post-model adjustments (PMA) to address model weaknesses or to account for situations where known or expected risk factors and information have not been considered in the modelling process. All PMAs relating to model deficiencies, regardless of value are approved by IVU for a set time period. PMAs representing Expert Judgement are validated by Risk, as the second line of defence and approved for a set time period. The most material PMAs are also approved by the CRO.

Models must also assess ECL across a range of future economic conditions. These economic scenarios are generated via an independent model and ultimately set by the Senior Scenario Review

# Principal risk management (continued)

Committee. Economic scenarios are regenerated at a minimum twice annually but more frequently if deemed appropriate, and also to align with the Group's medium term planning exercise. Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data in golden source systems, documented data transformations and documented lineage of data transfers between systems.

i) The Group Impairment Committee, formed of members from both Finance and Risk and attended by both the Group Finance Director and the Group CRO, is responsible for overseeing impairment policy and practice across the Group and will approve impairment results. Reported results and key messages are communicated to the BAC, which has an oversight role and provides challenge of key assumptions, including the basis of the scenarios adopted. Impairment results are then factored into management decision making, including but not limited to, business planning, risk appetite setting and portfolio management.

## Market risk management (audited)

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

### Overview

Market risk arises primarily as a result of client facilitation in wholesale markets, involving market-making activities, risk management solutions and execution of syndications. Upon execution of a trade with a client, the Group will look to hedge against the risk of the trade moving in an adverse direction. Mismatches between client transactions and hedges result in market risk due to changes in asset prices, volatility or correlations.

### Organisation, roles and responsibilities

Market risk in the businesses resides primarily in Barclays International and Treasury. These businesses have the mandate to assume market risk. The front office and Treasury trading desks are responsible for managing market risk on a day-to-day basis, where they are required to understand and adhere to all limits applicable to their businesses. The Market Risk team supports the trading desks with the day-to-day limit management of market risk exposures through governance processes which are outlined in supporting market risk policies and standards.

Market risk oversight and challenge is provided by business committees and Group committees, including the Market Risk Committee (MRC).

The objectives of market risk management are to:

- identify, understand and control market risk by robust measurement, limit setting, reporting and oversight
- facilitate business growth within a controlled and transparent risk management framework
- control market risk in the businesses according to the allocated appetite.

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

The BRC recommends market risk appetite to the Board for their approval. The Market Risk Principal Risk Lead (PR Lead) is responsible for the Market Risk Control Framework and, under delegated authority from the Group CRO, agrees with the business CROs a limit framework within the context of the approved market risk appetite.

The Market Risk Committee (MRC) reviews and makes recommendations concerning the group-wide market risk profile. This includes overseeing the operation of the Market Risk Framework and associated policies and standards, monitoring market and regulatory changes, and reviewing limit utilisation levels. The committee is chaired by the PR Lead and attendees include the business heads of market risk and business aligned market risk managers.

In addition to MRC, the Corporate and Investment Bank Risk Committee ('CIBRC') is the main forum in which market risk exposures are discussed and reviewed with senior business heads. The Committee is chaired by the CRO of Barclays International and meets weekly, covering current market events, notable market risk exposures, and key risk topics. New business initiatives are generally socialised at CIBRC before any changes to risk appetite or associated limits are considered in other governance committees.

The head of each business is accountable for all market risks associated with its activities, while the head of the market risk team covering each business is responsible for implementing the risk control framework for market risk.

For more information on market risk management, refer to the Barclays PLC Pillar 3 Report 2022 (unaudited).

### Management value at risk (VaR)

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

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

+ See the market risk performance section **for a review of management VaR.**

## Treasury and capital risk management

This comprises:

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

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

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

The Treasury function manages treasury and capital risk exposure on a day-to-day basis with the Group Treasury Committee acting as the principal management body. The Treasury and Capital Risk function is responsible for oversight and provides insight into key capital, liquidity, interest rate risk in the banking book (IRRBB) and pension risk management activities.

# Principal risk management (continued)

## Liquidity risk management (audited)

### Overview

The efficient management of liquidity is essential to the Group in order to retain the confidence of the financial markets and maintain the sustainability of the business. Treasury and Capital Risk have created a framework to manage all liquidity risk exposures under both normal and stressed conditions. The framework is designed to maintain liquidity resources that are sufficient in amount, quality and funding tenor profile to remain within the liquidity risk appetite as expressed by the Barclays PLC Board. The liquidity risk appetite is monitored against both internal and regulatory liquidity metrics.

### Organisation, roles and responsibilities

Treasury has the primary responsibility for managing liquidity risk within the set risk appetite. Both Risk and Treasury contribute to the production of the Internal Liquidity Adequacy Assessment Process (ILAAP). The Treasury and Capital Risk function is responsible for the management and governance of the liquidity risk mandate, as defined by the Board.

The framework established by Treasury and Capital Risk is designed to deliver the appropriate term and structure of funding, consistent with the liquidity risk appetite set by the Board. The framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Group's balance sheet, contingent liabilities and the recovery plan. Limit setting and transfer pricing are tools designed to control the level of liquidity risk taken and drive the appropriate mix of funds. Adherence to limits reduces the likelihood that a liquidity stress event could lead to an inability to meet Group's obligations as they fall due.

The Board approves the Group funding plan, internal stress tests, regulatory stress test results, recovery plan and liquidity risk appetite. The Group Treasury Committee is responsible for monitoring and managing liquidity risk in line with the Group's funding management objectives, funding plan and risk appetite. The Treasury and Capital Risk Committee monitors and reviews the liquidity risk profile and control environment, providing second line oversight of the management of liquidity risk. The BRC reviews the risk profile, and reviews liquidity risk appetite at least annually and the impact of stress scenarios on the Group funding plan/forecast in order to agree the Group's projected funding abilities.

## Capital risk management (audited)

### Overview

Capital risk is managed through ongoing monitoring and management of the capital position, regular stress testing and a robust capital governance framework. The objectives of the framework are to maintain adequate capital for the Group and legal entities to withstand the impact of the risks that may arise under normal and stressed conditions, and maintain adequate capital to cover current and forecast business needs and associated risks to provide a viable and sustainable business offering.

### Organisation, roles and responsibilities

Treasury has the primary responsibility for managing and monitoring capital adequacy. The Treasury and Capital Risk function provides oversight of capital risk. Production of the Barclays PLC Internal Capital Adequacy Assessment Process (ICAAP) is the responsibility of Treasury.

Capital risk management is underpinned by a control framework and policy. The capital management strategy, outlined in the Group and legal entity capital plans, is developed in alignment with the control framework and policy for capital risk, and is implemented consistently in order to deliver on the Group's objectives.

The Board approves the Group capital plan, internal stress tests and results of regulatory stress tests, and the Group recovery plan. The Group Treasury Committee is responsible for monitoring and managing capital risk in line with the Group's capital management objectives, capital plan and risk frameworks. The Treasury and Capital Risk Committee monitors and reviews the capital risk profile and control environment, providing second line oversight of the management of capital risk. The BRC reviews the risk profile, and reviews risk appetite at least annually and the impact of stress scenarios on the Group capital plan/forecast in order to agree the Group's projected capital adequacy.

Local management assures compliance with an entity's minimum regulatory capital requirements by reporting to local Asset and Liability Committees (ALCOs) with oversight by the Group Treasury Committee, as required. In 2022, Barclays complied with all regulatory minimum capital requirements.

### Pension risk

The Group maintains a number of defined benefit pension schemes for past and current employees. The ability of schemes to meet pension payments is achieved with investments and contributions.

Pension risk arises because the market value of pension fund assets might decline; investment returns might reduce; or the estimated value of pension liabilities might increase. The Group monitors the pension risks arising from its defined benefit pension schemes and works with the relevant pension fund's trustees to address shortfalls. In these circumstances, the Group could be required or might choose to make extra contributions to the pension fund. The Group's main defined benefit scheme was closed to new entrants in 2012.

## Interest rate risk in the banking book management (IRRBB)

### Overview

Interest rate risk in the banking book is driven by customer deposit taking and lending activities, investments in the liquid asset portfolio and funding activities. As per the Group's policy to remain within the defined risk appetite, hedging strategies are executed to mitigate the various IRRBB risks that result from these activities. However, the Group remains susceptible to interest rate risk and other non-traded market risks from the following key sources:

- Interest rate and repricing risk: the risk that net interest income could be adversely impacted by a change in interest rates, differences in the timing of interest rate changes between assets and liabilities, and other constraints on interest rate changes as per product terms and conditions.
- Customer behavioural risk: the risk that net interest income could be adversely impacted by the discretion that customers and counterparties may have in respect of being able to vary from their contractual obligations with Barclays. This risk is often referred to by industry regulators as 'embedded option risk'.
- Investment risks in the liquid asset portfolio: the risk that the fair value of assets held in the liquid asset portfolio and associated risk management portfolios could be adversely impacted by market volatility, creating volatility in capital directly.

### Organisation, roles and responsibilities

The entity ALCOs and/or treasury committees, together with the Group Treasury Committee, are responsible for monitoring and managing IRRBB risk in line with the Group's management objectives and risk frameworks. The GRC and

# Principal risk management (continued)

Treasury and Capital Risk Committee monitors and reviews the IRRBB risk profile and control environment, providing second line oversight of the management of IRRBB. The BRC reviews the interest rate risk profile, including review of the risk appetite at least annually and the impact of stress scenarios on the interest rate risk of the Group's banking books.

In addition, the Group's IRRBB policy sets out the processes and key controls required to identify all IRRBB risks arising from banking book operations, to monitor the risk exposures via a set of metrics with a frequency in line with the risk management horizon, and to manage these risks within agreed risk appetite and limits.

## Model risk management

The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

### Overview

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

### Organisation, roles and responsibilities

The Group has a dedicated Model Risk Management (MRM) function that consists of five teams: (i) Independent Validation Unit (IVU), responsible for model validation and approval; (ii) Group Model Risk Governance , responsible for model risk governance, controls and reporting, as well as providing oversight for compliance of the Model Owner community with the Model Risk Framework; (iii) Framework team, responsible for the Model Risk Policy and associated standards; (iv) Strategy and Transformation, responsible for inventory, strategy, communications and business management; and v) Model Risk Measurement and Quantification (MRMQ), responsible for the design of the framework and methodology to measure and, where possible, quantify model risk. It is also responsible for the strategic Validation Centre of Excellence (VCoE), which is an independent quality assurance function within MRM with the mandate to review and challenge validation outcomes.

The Model Risk Framework consists of the Model Risk Policy and standards. The policy prescribes Group-wide, end-to-end requirements for the identification, measurement and management of model risk, covering model documentation, development, monitoring, annual review, independent validation and approval, change and reporting processes. The policy is supported by global standards covering model inventory, documentation, validation, testing and monitoring, overlays, risk appetite, and stress testing challenger models.

The function reports to the Group CRO and operates a global framework. Implementation of best practice standards is a central objective of the Group.

The key model risk management activities include:

- Correctly identifying models across all relevant areas of the Group, and recording models in the Group Models Database (GMD), the Group-wide model inventory.
- Enforcing that every model has a model owner who is accountable for the model. The model owner must sign off models prior to submission to IVU for validation and maintain that the model presented to IVU is and remains fit for purpose.
- Overseeing that every model is subject to validation and approval by IVU, prior to being used and on a continual basis.
- Defining model risk appetite in terms of risk tolerance, and qualitative metrics which are used to track and report model risk.

## Operational risk management

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

### Overview

The management of operational risk has three key objectives:

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

The Group operates within a system of internal controls that enables business to be transacted and risk taken without exposing it to unacceptable potential losses or reputational damages.

### Organisation, roles and responsibilities

The prime responsibility for the management of operational risk and the compliance with control requirements rests within the business and functional units where the risk arises. The operational risk profile and control environment is reviewed by management through business risk committees and control committees. Operational risk issues escalated from these meetings are considered through the second line of defence review meetings. Depending on their nature, the outputs of these meetings are presented to the Operational Risk Profile Forum, the Operational Risk Committee, the BRC or the BAC. In addition, specific reports are prepared by Operational Risk on a regular basis for the GRC and the BRC.

Legal entities, businesses and functions are required to report their operational risks on both a regular and an event-driven basis. The reports include a profile of the material risks that may threaten the achievement of their objectives and the effectiveness of key controls, operational risk events and a review of scenarios.

The Group Head of Operational Risk is responsible for establishing, owning and maintaining an appropriate group-wide Operational Risk Framework and for overseeing the portfolio of operational risk across the Group.

The Operational Risk function acts in a second line of defence capacity, and is responsible for defining and overseeing the implementation of the framework and monitoring the Group's operational risk profile. The Operational Risk function alerts management when risk levels exceed acceptable tolerance in order to drive timely decision- making and actions by the first line of defence.

### Operational risk categories

Operational risks are grouped into risk categories to support effective risk management, measurement and reporting. These comprise: Data Management Risk; Financial Reporting Risk; Fraud Risk; Information Security Risk; Operational Recovery Planning Risk; Payments Process Risk; People Risk; Premises Risk; Physical Security Risk; Change Delivery Management Risk; Supplier Risk; Tax Risk; Technology Risk; and Transaction Operations Risk.

In addition to the above, operational risk encompasses risks associated with

# Principal risk management (continued)

compliance with Group Resolution Planning Prudential regulatory requirements.

## Connected risks

Barclays also recognises that there are certain threats/risk drivers which are interconnected and have the potential to impact the Group's strategic objectives. These are referred to as Connected Risks and require an overarching and integrated risk management and/or reporting approach. The Group's Connected Risks include Cyber, Data, Resilience and Third-Party Service Providers.

**For definitions of the Group's Operational Risk Categories and connected risks,** refer to the management of operational risk section in the Barclays PLC Pillar 3 Report 2022.

## Conduct Risk management

The risk of poor outcomes for, or harm to, customers, clients and markets, arising from the delivery of the Group's products and services.

### Overview

The Group defines, manages and mitigates conduct risk with the objective of providing good customer and client outcomes and protecting market integrity.

Conduct risk incorporates market integrity, customer protection, financial crime and product design and review risks.

### Organisation, roles and responsibilities

The Conduct Risk Management Framework (CRMF) outlines how the Group manages and measures its conduct risk profile. The Group Chief Compliance Officer is accountable for developing, maintaining and overseeing the CRMF. This includes defining and owning the relevant conduct risk policies which detail the control objectives, principles and other core requirements for the activities of the Group. It is the responsibility of the first line of defence to establish controls to manage its performance and assess conformance to these policies and controls.

Senior managers are accountable within their areas of responsibility for owning and managing conduct risk in accordance with the CRMF, as defined within their regulatory Statement of Responsibilities.

Compliance as an independent second line function oversees that conduct risks are effectively identified, managed, monitored and escalated, and has a key role in helping Barclays achieve the right conduct outcomes and evolve a conduct-focused culture.

The governance of conduct risk within the Group is fulfilled through management committees and forums operated by the first and second lines of defence with clear escalation and reporting lines to the Board. The Barclays Group and Barclays Bank Group Risk Committee and the Barclays Bank UK Group Risk Committee are the primary second line governance committees for the oversight of the Conduct Risk Profile. The risk committees' responsibilities include the identification and discussion of any emerging conduct risks exposures in their respective entities.

## Conduct

By effectively managing Conduct risks, we can continue to strengthen the culture of Barclays.

## Culture and conduct

We believe the stronger our culture, the better the choices our people will make; and the stronger our business will be for all our stakeholders. While our culture helps us reduce the impact of poor conduct on our customers, we also do not intend to repeat the errors of the past.

Our most senior leaders spend significant time setting the right tone at Barclays and our Purpose and Values are now deeply embedded in their messages. The Barclays Way sets out the standards and behaviour all employees must demonstrate and guides the execution of our business. We also strengthen our culture with clear and effective controls. We continue investing to enhance our controls to support our commitment to conducting all activities with integrity.

**For details of the Board's role in embedding our Culture, Purpose, Values and Mindset, please refer to** page 154 **of the Directors' Report.**

## The Barclays Mindset

Our Mindset acts as an operating manual for how to get things done at Barclays. It focuses on three key elements that are core to our success – Empower, Challenge and Drive. Our research shows that when we demonstrate behaviours aligned to these three elements, outcomes are better, colleagues are more engaged and they are more likely to stay longer to build their career at Barclays.

**For further details, see page 31 in the Strategic Report for more information on the Barclays Mindset.**

## Managing Conduct risks

**See page 184 in the Directors' report in addition to pages , 279 and 368 in the risk review section for more information on how the Group defines, manages and mitigates Conduct risks.**

## Product design and review risk

It is important that the design of our products and services meets the needs of clients, customers, markets as well as being aligned with Barclays' policies. We do this by operating two processes, which together form our product design and review risk framework.

We have a process that supports the Group in the approval and implementation of New and Amended Products and Approval process (known as the NAPA Process, set out in the Barclays NAPA Policy and Standards).

This process outlines the requirements and risk assessment standards that must be met to help ensure that new and amended products and services are appropriately designed prior to their launch.

In addition we have a complementary process that reviews the existing portfolio of products and services throughout their lifecycle (known as the Product Review Process, set out in the Barclays Product Review Policy and Standard). This process considers information about the performance and operation of the product or service through a conduct lens.

Wherever a product or service is found to be outside appetite, the product or service owner must seek to ensure actions are taken to address it. These actions are validated by functional areas, including Legal and Compliance.

Areas of Barclays that undertake Investment activity also operate additional product governance processes and controls, reflecting the higher risk of these more complex products and the importance of products and services meeting the needs of our Clients.

**The BPLC, BBPLC and BBUKPLC Board Risk Committees review, on behalf of their respective Boards, the management of Conduct risk and the Conduct risk profile for their respective entities.**

**Please refer to the report of the BPLC Board Risk Committee on pages 179 and 184 and the reports of the BBPLC and BBUKPLC Board Risk Committees within the BBPLC and BBUKPLC 2022 Annual Reports available at** home.barclays/investor-relations/reports-and-events/annual-reports/ for more information.

## Customer communications

It is important that our engagement with our customers is open and honest and that we treat them fairly to avoid foreseeable harm and to make sure they are not exploited or misled. Barclays continues to take steps to ensure that our customers' needs and priorities are understood before making recommendations and that the communications we provide allow informed decisions to be made. We work to achieve this through a number of controls which focus on ensuring our customers receive clear information in order to understand the risks and benefits of the products we offer. For example: