Barclays Bank Delaware

2017 Dodd-Frank Act Stress Test Disclosure
Severely Adverse Scenario

October 2017

Introduction

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") for financial companies with total consolidated assets between $10 billion and $50 billion and implementing regulations issued by the federal banking agencies[1], Barclays Bank Delaware ("BBDE") must conduct company-run stress tests and publicly disclose a summary of the results. Federal banking agency regulation requires the disclosure of DFA stress test results under the Severely Adverse Scenario provided by the Federal Reserve, which was published on February 10, 2017. The scenario portrays a hypothetical, severely adverse macroeconomic environment, which is characterized by a severe global recession.

Summary of Severely Adverse Scenario

The Severely Adverse scenario is characterized by a severe global recession in which the U.S. unemployment rate rises by about 5.25 percentage points to 10 percent, accompanied by a period of heightened stress in corporate loan markets and commercial real estate markets. GDP begins to decline in the first quarter of 2017 and reaches a trough in the second quarter of 2018 that is about 6.5 percent below the pre-recession peak. Treasury short term rates fall to 0.1 percent at the beginning and remain at that level through the end of the scenario.

In forecasting BBDE's operating performance under the Severely Adverse scenario, BBDE considers and incorporates multiple economic variables provided by the Federal Reserve that correlate with BBDE's primary business drivers (e.g. purchases, payments, credit losses, etc.). Key macroeconomic variables that are material drivers in our models include: Unemployment rate, Nominal GDP, Personal Consumption Expenditures, as well as market interest rates.

Risk Types

BBDE intends to capture its material exposures, activities and risks through estimates of operating performance and capital positions under the Severely Adverse scenario provided by the Federal Reserve. These material exposures and risks primarily impact BBDE's credit card and consumer lending portfolios. The types of risks included in the stress test under a macroeconomic scenario include, but are not limited to, the following:

- Declines in business volumes;
- Increases in credit losses in loan and receivable portfolios;
- Changes in funding costs due to changes in market interest rates and credit spreads;
- Increases in liquidity risks associated with potential dislocations in capital markets; and
- Losses related to operational risk events such as external fraud.

The impact of the above risk types is intended to be fully captured under the Severely Adverse scenario.

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[1] Federal banking agencies are the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC")

Methodology

BBDE performs a detailed annual bottom-up stress testing process, leveraging a suite of regression-based models. BBDE's stress testing exercise primarily evaluates the impact on the Bank's credit card and consumer lending portfolios. In addition, stressed estimates of funding liabilities, such as online savings, CDs, brokered deposits and securitization are produced. Stress testing approaches will vary depending on products and may combine quantitative modeling and qualitative judgment to ensure the results accurately reflect the impact of the stress test economic scenario.

Macroeconomic indicators are taken into account to produce the hypothetical income statement and balance sheet over a nine-quarter period beginning Q1 2017. The statistical models incorporate regression, formulaic linkage, and/or qualitative judgment to generate estimates of metrics such as payments, purchases and credit losses. The portfolio data is segmented in order to produce more granular results that allow for greater understanding of how different parts of the portfolio are performing. BBDE uses the output from the models along with management judgment to calculate the impact on capital ratios under the Severely Adverse scenario.

Major business changes are added to the modeled results.

Company-Run Stress Test Results

The results of the company-run stress test on BBDE's capital ratios and certain financial metrics are set forth in the tables below. The results include capital action assumptions provided within the Dodd-Frank Act Stress Testing ("DFAST") rules, including:

- Contractual terms on any instrument that is eligible for inclusion in the numerator of a regulatory capital ratio were adhered to during the stress period.

The stress test results represent estimates under a hypothetical macroeconomic scenario that is more adverse than current forecasted macroeconomic environments. Therefore, these estimates are not forecasts of expected losses, revenues, net income or capital ratios and are not necessarily indicative of future performance under a severely adverse scenario.

Hypothetical capital ratios through Q1 2019 under the Severely Adverse Scenario

	Actual Q4 16	Stressed Capital Ratios	
		Ending	Minimum
Common Equity Tier 1 Capital Ratio	10.2%	8.7%	8.0%
Tier 1 Capital Ratio	12.5%	11.1%	10.4%
Total Risk-based Capital Ratio	14.4%	13.0%	12.3%
Tier 1 Leverage Ratio	10.8%	8.5%	8.1%

Hypothetical risk-weighted assets through Q1 2019 under the Severely Adverse Scenario

	Actual Q4 16	Severe Projected Q1 19

Risk-weighted Assets ($ in billions)	27.4	25.8

Hypothetical losses, revenue and net income through Q1 2019 under the Severely Adverse Scenario

	($ in billions)	% of Average Assets[2]
Pre-provision Net Revenue	3.8	11.7%
Other Revenue	-	-
Less		
Provisions	4.5	14.0%
Realized losses/gains on securities (AFS/HTM)	-	-
Trading and counterparty losses	-	-
Other losses/gains	-	-
Taxes	(0.3)	(0.9%)
Equals		
Net Income	(0.5)	(1.5%)
Memo items		
Other comprehensive income	-	-
Other effects on capital		
AOCI included in capital (billions of dollars)	-	-

Hypothetical loan losses by type of loans for Q1 2017 through Q1 2019 under the Severely Adverse Scenario

	($ in billions)	Portfolio Loss Rates[3]
Loan Losses	3.8	16.6%
First-lien mortgages domestic	-	-
Junior liens and HELOCS, domestic	-	-
Commercial and Industrial[4]	0.0	21.8%
Commercial real estate, domestic	-	-
Credit cards	3.7	16.9%
Other consumer	0.1	7.2%
Other loans	-	-

<u>Description of Stress Scenario Results</u>

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[2] Expressed on a nine quarter cumulative basis as a percentage of average assets over the same time period
[3] Nine quarter cumulative losses as a percentage of average balances over the same time period
[4] Commercial and industrial loans consists of corporate cards

Internal Only

Capital ratios decline under the Severely Adverse scenario, however, both ending and minimum capital ratios are above regulatory requirements. Capital ratios decline due to the greater impact on capital levels (specifically from lower Net Income) than the offset in RWA and Asset contraction that occurs from lower loan growth and funding requirements.

Deterioration in macroeconomic conditions impacts customer creditworthiness and customer behavior, resulting in lower account originations, higher charged-off balances and lower purchase and payment activity, causing further asset contraction from the lower loan growth.

Net Income primarily declines due to increases in provisions for loan losses. Pre-Provision Net Revenue decreases due to lower loan volume, lower Prime rate which impacts interest generating loan balances, and lower spend-related income from lower customer purchase behavior. This is offset by lower cost of funds from lower interest rates and balances, higher customer revolving balance rate, and lower marketing and operating expense due to lower account volumes.

Loan growth declines under stress given the need to focus on capital preservation in the face of rising credit losses and stressed economic conditions. Portfolio growth driven by customer acquisition is largely offset by changes in customer purchase behavior and increased charge-off balances in response to economic stress.

Internal Only