Barclays Bank Delaware

2016 Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

October 2016

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 ("BBD") 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 Supervisory Severely Adverse Scenario provided by the Federal Reserve, which was published on January 28, 2016. The scenario portrays a hypothetical, severely adverse macroeconomic environment, which is characterized by a severe global recession.

Summary of Supervisory Severely Adverse Scenario

The Supervisory Severely Adverse scenario is characterized by a severe global recession, accompanied by a period of heightened corporate financial stress and negative yields for short-term U.S. Treasury securities. Unemployment rate increases by 5 percentage points, peaking at 10 percent in the middle of 2017. Real GDP begins to decline in first quarter 2016 and reaches a trough in first quarter 2017 that is 6.25% below the pre-recession peak.

In forecasting BBD's operating performance under the Supervisory Severely Adverse scenario, BBD considers and incorporates multiple economic variables provided by the Federal Reserve that correlate with BBD's primary business drivers (e.g. loan and receivable balances, credit losses, etc.). Key macroeconomic variables that are material drivers in our analysis include: Unemployment, Disposable Income, Financial Obligation Ratio, Fed Funds Rate and other market interest rates.

Risk Types

BBD intends to capture its material exposures, activities and risks through estimates of operating performance and capital positions under the Supervisory Severely Adverse scenario provided by the Federal Reserve. These material exposures and risks primarily impact BBD's credit card 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 Supervisory Severely Adverse scenario.

Methodology

BBD performs a detailed annual stress testing process which is based on the most current strategic forecast. BBD's stress testing exercise primarily evaluates the impact on the

[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")

Bank's credit card portfolio, as that is the principal business of the Bank. 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 running statistical models with management judgment to ensure the results accurately reflect the impact of the stress test economic scenario.

Macroeconomic indicators are taken into account to estimate the income statement and balance sheet over a nine-quarter period beginning Q1 2016. The statistical models incorporate historical data and correlations 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. Management judgment is used to estimate changes in volumes or strategy that would occur in response to deteriorating economic conditions. BBD uses the output from the models along with management judgment to calculate the impact on capital ratios under the Supervisory Severely Adverse scenario.

Company-Run Stress Test Results

The results of the company-run stress test on BBD'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 2018 under the Supervisory Severely Adverse Scenario

	Actual	Stressed Capital Ratios	
	Q4 15	Ending	Minimum[2]
Common Equity Tier 1 Capital Ratio	10.7%	10.2%	10.0%
Tier 1 Capital Ratio	13.0%	13.1%	12.7%
Total Risk-based Capital Ratio	15.3%	16.2%	14.7%
Tier 1 Leverage Ratio	11.8%	9.3%	9.3%

[2] Represents the projected minimum quarter-end capital ratio at any point during the nine quarter stress period

Hypothetical risk-weighted assets through Q1 2018 under the Supervisory Severely Adverse Scenario

	Actual Q4 15	Projected Q1 18
Risk-weighted Assets (RWA) ($ in billions)	24.4	21.6

Hypothetical losses, revenue and net income through Q1 2018 under the Supervisory Severely Adverse Scenario

	($ in billions)	% of Average Assets[3]
Pre-provision Net Revenue	4.1	13.3%
Other Revenue	-	-
Less		
Provisions	4.2	13.6%
Realized losses/gains on securities (AFS/HTM)	-	-
Trading and counterparty losses	-	-
Other losses/gains	-	-
Taxes	(0.1)	(0.2%)
Equals		
Net Income	(0.0)	(0.1%)
Memo items		
Other comprehensive income	-	-
Other effects on capital		
AOCI included in capital (billions of dollars)	-	-

[3] Expressed on a nine quarter cumulative basis as a percentage of average assets over the same time period

Hypothetical loan losses by type of loans for Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario

	($ in billions)	Portfolio Loss Rates[4]
Loan Losses	3.0	12.9%
First-lien mortgages domestic	-	-
Junior liens and HELOCS, domestic	-	-
Commercial and Industrial[5]	0.0	36.6%
Commercial real estate, domestic	-	-
Credit cards	2.9	12.8%
Other consumer	-	-
Other loans	-	-

Description of Stress Scenario Results

Capital ratios decline under the Supervisory 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 changes in 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, higher customer revolving balance rate behavior and lower non-interest expense from marketing and operating expense reductions due to lower loan volume.

Loan growth declines across the stress horizon 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.

[4] Nine quarter cumulative losses as a percentage of average balances over the same time period
[5] Commercial and industrial loans consists of corporate cards