

BARCLAYS PLC
Form 6-K
March 24, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

24 March 2009

Barclays PLC

(Name of Registrant)

1 Churchill Place

London E14 5HP

England

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

This Report on Form 6-K filed by Barclays PLC.

The Report comprises:

Information distributed to shareholders and furnished pursuant to General Instruction B to the General Instructions to Form 6-K.

EXHIBIT INDEX

EXHIBIT

NUMBER	DESCRIPTION
1	Barclays PLC Notice of Annual General Meeting 2009
2	Barclays PLC Proxy Form for the Annual General Meeting 2009
3	Barclays PLC Sharestore Proxy Form for the Annual General Meeting 2009
4	Barclays PLC Annual Report 2008

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

BARCLAYS PLC
(Registrant)

Date: March 24, 2009

By: /s/ Marie Smith
Name: Marie Smith
Title: Assistant Secretary

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Annual Report 2008

We thank our customers and clients for the business they directed to Barclays in 2008. High levels of activity on their behalf have enabled us to report substantial profit generation in difficult conditions. Our priorities in 2008 were (and remain): to stay close to customers and clients; to manage our risks; and to progress strategy.

John Varley

Group Chief Executive

www.barclays.com/annualreport08

In a very difficult economic environment in 2008, Barclays has steered a course that has enabled us to be solidly profitable despite strong headwinds. We are well positioned to maintain Barclays competitive strengths through the undoubted challenges that will come in 2009 and beyond.

Marcus Agius

Group Chairman

We're committed to supporting customers through the current economic climate, running over 800 savings seminars for customers in 2008.

We increased lending to social housing projects by over £2 billion.

51° 30' 16"N
London, UK 12pm GMT

50° 48' 00"N
Portsmouth, UK 12pm GMT

Highlights of the year

Group profit before tax was £6,077m, down 14% on 2007. Profit included:

Gains on acquisitions of £2,406m, including £2,262m relating to Lehman Brothers North American businesses

Profit on disposal of the closed life assurance book of £326m

Gains on Visa IPO and sales of shares in MasterCard of £291m

Gross credit market losses and impairment of £8,053m

Gains on own credit of £1,663m

Global Retail and Commercial Banking profit before tax increased 6% to £4,367m

UK lending increased to both retail and corporate customers

Strengthened international presence in Barclaycard, Western Europe and Emerging Markets

Investment Banking and Investment Management profit before tax was £2,568m, down 24% reflecting significant gain on acquisition and disposal and the impact of credit market dislocation

Barclays Capital's strategy of diversification by geography and business accelerated through the acquisition of Lehman Brothers North American businesses

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There were strong net new asset flows into Barclays Wealth and Barclays Global Investors despite declines in equity markets

Group balance sheet growth was driven by over £900bn derivative gross-up, growth in loans and advances of £124bn and impact of foreign exchange rates on non-Sterling assets

Risk weighted assets increased 22% (£79bn) to £433bn reflecting:

the significant depreciation in Sterling relative to both the US Dollar and the Euro

procyclicality: macroeconomic indicators generally, and corporate credit conditions specifically, deteriorated towards the end of 2008 leading to ratings declines

Capital ratios were strengthened through the raising of £13.6bn of Tier 1 capital. The year-end pro forma Tier 1 capital ratio was 9.7% and the pro forma Equity Tier 1 ratio was 6.7%

Barclays targets reduced adjusted gross leverage and capital ratios significantly ahead of regulatory requirements

Income statement highlights

For the year ended 31st December

	2008	2007	2006	
	£m	£m	£m	
Total income net of insurance claims	23,115	23,000	21,595	Income
Impairment charges and other credit provisions	(5,419)	(2,795)	(2,154)	
Operating expenses	(14,366)	(13,199)	(12,674)	
Gains on acquisitions	2,406			
Profit before tax	6,077	7,076	7,136	
Profit attributable to equity holders of the parent	4,382	4,417	4,571	Profit before tax
Basic earnings per share	59.3p	68.9p	71.9p	
Dividend per ordinary share	11.5p	34.0p	31.0p	
Return on average shareholders' equity	16.5%	20.3%	24.7%	
Cost:income ratio	62%	57%	59%	
Number of staff	156,300	134,900	122,600	

Business review

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Building the best bank in the UK

**Barclaycard contactless
technology**

In 2008 Barclaycard issued over one million contactless payments cards in the UK, with more than 7,000 shops now having the technology to use the cards installed.

The cards enable people to pay for items costing £10 or less by simply swiping them against a sensor and Barclaycard research shows 98% of people with a contactless payment card think it is easy to use and 88% think it speeds up payment times.

Number of contactless cards

1m+

51° 30' 18"N

London, UK 12pm GMT

Barclays today

Listed in London and New York, Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, United States, Africa and Asia.

With a strong long-term credit rating and over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs 156,000 people.

Barclays moves, lends, invests and protects money for 48 million customers and clients worldwide.
Senior Management

Global Retail and Commercial Banking

UK Retail Banking

One of the largest retail banks in the UK with over 1,700 branches, 15 million personal customers and 660,000 small business

customers.

Profit before tax

Barclays Commercial Bank

Barclays Commercial Bank serves over 81,000 business clients through a network of relationship and industry sector specialists.

Profit before tax

Barclaycard

Barclaycard launched the first credit card in the UK in 1966. It now has 23 million customers in the UK, across Europe and the United States.

Profit before tax

GRCB Western Europe

GRCB Western Europe serves two million retail, premier, card, SME and corporate customers in Spain, Portugal, France and Italy through nearly 1,200 distribution points.

Profit before tax

GRCB Emerging Markets

A rapidly growing part of the business opening over 280 distribution points in 2008 and providing full banking services to over four million customers across Africa, Russia, the Middle East and Asia.

Profit before tax

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Number of
customers

Number of customers

Number of customers

Number of customers

Number of customers

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Diversified operations

Investment Banking and Investment Management

GRCB Absa

One of South Africa's largest financial services groups with over 1,100 distribution points and over 10 million retail customers offering a complete range of banking, bancassurance and wealth management products.

Profit before tax

Number of customers

Barclays Capital

Barclays investment banking division with the global reach, advisory services and distribution power to meet the needs of clients worldwide, holding top three positions in US capital markets and globally in commodities, foreign exchange, fund-linked derivatives, interest rate trading and investment.

Profit before tax

Number of clients generating more than £1m income

Barclays Global Investors

One of the world's largest asset managers with US\$1.5 trillion assets under management and the global product leader in exchange traded funds (iShares).

Profit before tax

Assets under management

Barclays Wealth

Barclays Wealth serves clients worldwide, providing international and private banking, fiduciary services, investment management and brokerage. It is the UK's leading wealth manager by client assets and has offices across the Americas following the acquisition of Lehman Brothers Private Investment Management.

Profit before tax

Client assets

Key performance indicators

Financial KPIs

Definition

Profit before tax

Profit before tax is one of the two primary profitability measures used to assess performance and represents total income less impairment charges and operating expenses.

Why it is important to the business and management

Profit before tax is a key indicator of financial

performance to the majority of our stakeholders.

2006 2007 2008

£7,136m £7,076m £6,077m

Economic profit

Economic Profit (EP) is the other primary profitability measure used by Barclays. EP is profit after tax and minority interests less a capital charge (average shareholders' equity and goodwill excluding minority interests multiplied by the Group cost of capital).

Barclays believes that economic profit

encourages both profitable growth and the

efficient use of capital. Barclays has a set of

four year performance goals for the period

2008 to 2011 inclusive. The primary goal

is to achieve compound annual growth in

economic profit in the range of 5% to 10%

(£9.3bn to £10.6bn of cumulative economic

profit) over the 2008 to 2011 goal period.

Given the increase in the cost of capital and

regulatory capital requirements in 2008 we

intend to publish new goals in 2009.

Shareholder returns

Total shareholder return (TSR) is defined as the value created for shareholders through share price appreciation, plus reinvested dividend payments. We compare Barclays performance with a group of international peers and aim for top quartile performance. Return on average shareholders' equity is calculated as profit after tax divided by the average shareholders' equity during the year, which is made up of share capital, retained earnings and other reserves.

These measures indicate the returns shareholders are receiving for their investment

in Barclays both in terms of relative share

price movements and the business

performance. These metrics demonstrate

the alignment of Barclays strategy and operations with the interests of shareholders.

Total shareholder return
2006 2007 2008

2nd 3rd 2nd
quartile quartile quartile

Return on average
shareholders' equity

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	2006	2007	2008	
	24.7%	20.3%	16.5%	
Capital ratios				Pro-forma 2008
Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets. Tier 1 capital is defined by the UK FSA with Equity Tier 1 broadly being tangible shareholders funds within Tier 1. The 2008 pro-forma ratios reflect the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital.				
The Group's capital management activities seek to maximise shareholders' value by optimising the level and mix of its capital resources.	2006 Equity Tier 1^a	2007	2008	
The Group's capital management objectives are to:	5.3%	5.1%	5.8%	6.7%
Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the UK FSA and the US Federal Reserve Bank's requirements that a financial holding company be well capitalised	Tier 1^a 7.7%	7.6%	8.6%	9.7%
Maintain sufficient capital resources to support the Group's Risk Appetite and economic capital requirements				
Support the Group's credit rating				
Ensure locally regulated subsidiaries can meet their minimum capital requirements				
Allocate capital to businesses to support the Group's strategic objectives, including optimising returns on economic and regulatory capital.				
We expect to maintain our Equity Tier 1 and Tier 1 ratios at levels which significantly exceed the current minimum requirements				
	Note			
				a Capital ratios for 2008 and 2007 are calculated on a Basel II basis, whilst the 2006

of the UK FSA for the duration of the current period of financial and economic stress.

ratios are on a Basel I basis

Adjusted Gross Leverage

Adjusted gross leverage is defined as the multiple of adjusted total tangible assets over total qualifying Tier 1 capital. Adjusted total tangible assets are total assets less derivative counterparty netting, assets under management on the balance sheet, settlement balances, goodwill and intangible assets. Tier 1 capital is defined by the UK FSA. The 2008 Pro forma ratio reflects the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital.

Barclays believes that there will be more capital and less leverage in the banking system, as a key measure of stability, which is consistent with the views of regulators and investors. Barclays expects adjusted gross leverage to reduce further over time.

	Pro-forma		
	2007	2008	2008
	33x	28x	24x

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Strategic KPIs

Build the best bank in the UK

Definition

Why it is important to the business and management

UK Retail Banking Customer Satisfaction

The Retail Banking Service Monitor tracks satisfaction amongst Barclays customers. Approximately 13,000 customers a month are researched for this study. The Satisfaction score is measured using the percentage of customers who state they are Very or Completely satisfied with Barclays. We also benchmark our performance in comparison with competitors using syndicated or directly commissioned research.

Putting the customer first and improving customer service is fundamental to our goal of being the UK's best bank. Customer satisfaction targets are set at a strategic business unit level and business area action plans are developed through the continuous tracking of customer satisfaction and complaints feedback. Since June 2008 customer satisfaction and advocacy have been on an increasing trend as a result of significant improvements to our service and innovations in our product offerings.

Net new lending in Barclays Commercial Bank

The net new lending percentage represents the increase in our loans and advances to customers during the year.

Building the best bank in the UK means we are there for our customers. We have increased our lending to UK corporate customers even during the current economic conditions.

2006	2007	2008
+8%	+14%	+10%

UK Retail Banking cost:income ratio target

Cost:income ratio is defined as operating expenses compared to total income net of insurance claims.

It is a measure management use to assess the productivity of the business operations. In February 2008 we targeted improving the UK Retail Banking cost:income ratio by a further three percentage points from 57% over the course of the next three years.

2008	2007	2008
58%	57%	56%

Strategic KPIs

Accelerate growth of global businesses

Definition

Why it is important to the business and management

Barclaycard International number of customers

The total number of customers split between UK and non-UK.

Barclaycard is one of Europe's largest multi-branded credit card businesses, with a fast growing business in the United States and South Africa. In 2003 we targeted growing Barclaycard's international operations to the same scale as its UK business over 10 years. This KPI demonstrates how this target is being achieved.

Investment Banking and Investment Management Income

The Investment Banking and Investment Management division contains the majority of our global businesses and income is a key indicator of growth in this area. Including net credit market

2006	2007	2008
£9,092m	£10,332m	£8,399m

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The total income from the businesses which make up Investment Banking and Investment Management; being Barclays Capital, Barclays Global Investors and Barclays Wealth.

write-downs income in 2008 was £8,399m (2007: £10,332m). Excluding these write-downs income in 2008 was £11,593m (2007: £11,185m).

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Key performance indicators

Strategic KPIs

Develop Retail and Commercial Banking activities in selected countries outside the UK

Definition

Why it is important to the business and management

Number of distribution outlets outside the UK

Represents total number of branches and sales centres outside the UK.

This represents the growth in our footprint around the world, providing a clear indication of the development of our activities outside the UK. The addition of new distribution outlets drives the increase in customer numbers.

2006

2007

2008

1,705

2,349

3,158

Proportion of Global Retail and Commercial Banking international income

Percentage of total Global Retail and Commercial Banking income earned outside the UK.

This demonstrates the successful execution on Barclays strategy of diversifying our business base by geography over time to achieve higher growth.

Strategic KPIs

Enhance operational excellence

Definition

Why it is important to the business and management

Risk management

Loan loss rate

The loan loss rate represents the impairment charge on loans and advances as a proportion of the balances.

The granting of credit is one of Barclays major sources of income and its most significant risk. The loan loss rate is an indicator of the cost of granting credit.

Cost management

cost:income ratio by business

productivity benchmarking

Cost:income ratio is defined as operating expenses compared to total income net of insurance claims. This is compared to a peer set relevant for each business.

It is a measure management use to assess the productivity of the business operations. We target a top quartile cost:income ratio of each of our businesses relative to their peers.

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Sustainability

Definition

Why it is important to the business and management

Global investment in our communities

Barclays total contribution to supporting the communities where we operate.

Why it is important to the business and management Investing in the communities in which we operate is an integral part of Barclays sustainability strategy. We are committed to maintaining investment in our communities for the long-term both in good times and in bad. This metric demonstrates our commitment over time.

Our People

Definition

Why it is important to the business and management

Number of colleagues involved in fundraising and volunteering initiatives

The total number of Barclays employees taking part in volunteering, giving and fundraising activities with Barclays support.

Barclays community investment programme aims to engage and support colleagues around the world to get involved with our main partnerships, as well as the local causes they care about. Harnessing their energy, time and skills delivers real benefit to local communities, to their own personal development and to their engagement with Barclays.

	2006	2007	2008
	33,000	44,000	57,000

Employee opinion survey for Global Retail and Commercial Banking and Group Centre

A survey of employees, the results of which give demographic and diversity information as well as an indication of employee perceptions in four key areas: Barclays Top Leadership, Business Unit Leadership, Customer Focus and Employee Engagement. The results are analysed to show year on year trends of employee opinion and are benchmarked against other global financial services organisations and high performing organisations.

The results of the survey provide leaders with insight into employee views on key business drivers from which they can establish action plans for improvements based on both strengths and weaknesses identified.

Group Chairman's statement

2008 was an extraordinarily difficult year for the financial services industry with the second half in particular seeing a period of exceptional instability. It was a year that saw the rescue of a number of banks around the world and significant action being taken by governments globally to rebuild confidence in the sector including, in the UK, the government taking large shareholdings in two major banks.

Barclays was impacted by the difficult environment – we undertook two significant capital raisings during the year and incurred gross losses from credit market write-downs of approximately £8bn. However, a profit before tax for the year of just over £6bn, whilst benefiting from a number of gains on acquisitions and disposals, remains a resilient performance in such a difficult environment and reflects a continuing focus by all our people on servicing the needs of our customers and clients. We were able to absorb the level of credit market write-downs through the strong income performance of the Group. As a result of raising over £13bn in equity and Tier 1 capital in 2008, our capital base has been substantially strengthened and we have over £37bn of equity capital and reserves. This scale of loss absorption capacity, combined with the underlying profitability of the Group, gives us confidence that our capital resources are sufficient, even in these difficult markets. Our liquidity position remains strong.

The share price performance during the year was acutely disappointing. Share prices in the sector as a whole were badly hit during the year by a number of factors, including concerns over the profit outlook given the macroeconomic environment and uncertainty over banks' capital strength. It is of little consolation that in terms of total shareholder return we out-performed the majority of our UK peers and a number of our global competitors. The Board is committed to creating the conditions to allow the share price to recover and to resume dividend payments in the second half of 2009, following the decision not to pay a final dividend for 2008.

The difficult market conditions for bank shares has continued in 2009. We welcomed the announcements made by HM Treasury and the FSA in January designed to help the UK economy through a number of initiatives in the areas of capital ratios, funding and asset protection. Despite these, market confidence remains extremely fragile.

As a Board, we very much regret what has happened to the banking sector in general and to Barclays share price in particular. We fully recognise that banks must review their internal governance systems and remuneration structures to ensure there can be no repeat of the turmoil that has impacted the industry, and the wider economy, over the last 18 months. The Board HR and Remuneration Committee is reviewing compensation policy and structures across the Group to ensure maximum alignment both with the interests of our shareholders and with best practice. The Board is also committed to ensuring that Barclays plays its full part in contributing to the restoration of the health of the global economy and, with that, the reputation of the industry. In particular, the capital position and ongoing profitability of the Group is enabling us to support our customers in the difficult economic environment. For example, our lending to UK consumers and UK commercial clients increased by 16% and 14% respectively in 2008.

Market Environment

The announcement that Lehman Brothers would file for bankruptcy in September was the start of a period of extreme instability in global stock markets and a crisis of confidence in the banking system. Credit market conditions became very difficult and a number of banks around the world required government assistance. In October, the UK authorities decided to take action to stabilise the UK financial services industry. The capital plans and balance sheets of all the UK banks were subject to severe stress tests and additional capital was required to be raised to ensure that their ratios would remain prudent even in the severest downturn. This represented a significant change in the capital framework across the UK banking industry and obliged Barclays to raise capital well beyond the level we had previously agreed with our regulators.

In my speech at the General Meeting to approve the capital raising in November (which is available at www.barclays.com), we also recognised that some of our shareholders were unhappy about some aspects of the November capital raising. This unhappiness is a matter of great regret to us. I set out in my introduction to the Corporate Governance Report on page

157 some further information on the background to the November capital raising, the governance processes surrounding the decisions that were taken and the Board's appreciation of the support received from shareholders in very difficult circumstances. I would like to give my personal assurance that the Board considered the capital raising very carefully – there were 12 meetings of the Board in October and November to discuss the matter, ensuring appropriate corporate governance as we sought to react to the circumstances prevailing at the time. The Board regrets, however, that the capital raising denied Barclays existing shareholders their full rights of pre-emption and that our private shareholders were not able to participate in the raising.

Board Changes

As I stated in my report last year, Sir Michael Rake and Patience Wheatcroft joined the Board on 1st January 2008 and Dr Danie Cronjé retired from the Board at the Annual General Meeting. We announced in January 2009 that Sir Nigel Rudd had advised us that he did not intend seeking re-election at the forthcoming AGM. Sir Nigel has served as a Director for nearly 13 years and Barclays has benefited enormously from his commercial experience and wise counsel. He will be greatly missed. I would also like to pay tribute to Professor Dame Sandra Dawson, who will also be retiring as a Director at the AGM. Sandra has served with distinction as both a Director and member of the Board Audit Committee. Stephen Russell will also retire from the Board in October after nine years excellent service, particularly as Chairman of the Board Audit Committee.

We have also announced the appointment of Simon Fraser as a new non-executive Director. Simon held a number of positions during his career at Fidelity International, including President of Fidelity's European and UK institutional business and Global Chief Investment Officer. He will bring valuable fund management and institutional shareholder experience to the Board.

Maintaining our commitment to sustainability

At no other time in our history have the values of sustainability mattered more to our company and to our stakeholders.

We focus our commitment in this important area on our ability to support our customers well in good times and bad; on our role as an equal opportunity company employing all races, creed, colour and orientation; on our commitment to play our part in managing the impact of climate change; and on our role as a responsible global citizen.

We report on our progress on all these areas within the report (pages 66 to 68) and in our Sustainability Review 2008, which will be published in April 2009.

Key achievements for 2008 included maintaining responsible lending to individuals and businesses, a steady growth in the number of low-income bank accounts in many of our markets including the UK, developing diversity strategies and action plans tailored to local markets across our businesses and maintaining progress towards our goal that the global banking operations of Barclays be carbon neutral by the end of 2009.

There is a universal benefit to be obtained from a return to confidence in the banking system and from the restoration of the reputation of the banking industry in general. I give you my assurance that we at Barclays will do our utmost to play our part in procuring this vital objective.

Marcus Agius
Group Chairman
Barclays PLC

Group Chief Executive's review

I reported in our interim results that the conditions in the market in the preceding 12 months were as difficult as any that we had experienced in many years. In the six months since, we have seen the bankruptcy of Lehman Brothers, substantial action taken by the UK and other governments, and a progressive deterioration in the consensus expectations for global economic prospects. The environment has been extraordinarily challenging for nearly two years, and remains so.

We have managed Barclays carefully through this period. We have remained solidly profitable. Although the 2008 profit before tax of £6.1bn includes several individually significant and one-off items, our performance during the year has mainly been driven by ongoing business. Where we have had the opportunity to generate non-recurring profits, we have done so, including a gain on the acquisition of Lehman Brothers North American businesses, a gain on the acquisition of the Goldfish credit card business in the UK, gains on selling the UK Closed Life Fund and from the Visa IPO and sale of MasterCard shares. These items, combined with record income generation across the Group, have enabled us to absorb substantial write-downs on our credit market assets and still post substantial profits.

But our shareholders have suffered a lot. Although we cannot control the price at which our shares trade in the market, we greatly regret the fact that the total return on our shares during 2008 has been heavily negative, and we acknowledge with regret, also, our decision not to recommend the payment of a final dividend for 2008, which is one of the consequences of the increased capital requirements introduced by the UK Financial Services Authority in October.

These facts have influenced significantly our compensation decisions in respect of 2008. This has resulted in the incentive payments across Barclays being significantly lower in 2008 than in 2007; in the application of high differentiation in incentive pools, based both on business and individual performance; and in our delivering a significant proportion of compensation for the most senior individuals across Barclays over multiple years. Executive Directors will receive no bonuses for 2008. For 2009 and beyond, we are reviewing our compensation policies and practices to ensure that they evolve appropriately. Our endeavour as we do this is to maximise the alignment between these and the interests of our owners, as well as to ensure that our compensation policies and practices are appropriately benchmarked to changing best practice in the industry.

Our priorities in 2008 were (and remain): [to stay close to customers and clients](#); [to manage our risks](#); and [to progress strategy](#).

2008 Priorities

Our approach of staying close to customers and clients is shown in the number of customers we serve in Global Retail and Commercial Banking,

which has increased from 39 million to 48 million; in the increase in our lending volumes, particularly in UK mortgages, where our net lending mortgage market share was 36%, in the Group as a whole where our loans and advances increased 32% to £510bn; and in sharply increased activity levels in Barclays Capital in interest rates, currency products and commodities.

[Managing our risks](#) through the unfolding crisis has been a significant focus through the year. In this Annual Report we have set out extensive details on the nature and quality of our loans and advances, as well as further detail on our credit market assets. We have worked hard to reduce these during the year. £9.4bn of our exposures were sold or redeemed and, in addition, we have announced a total of £8.1bn in gross write-downs of these assets. Managing these exposures will continue to be a priority in 2009. We are confident of the valuations of these assets at the year end; whilst we expect there will be further charges as we work down these assets, we also expect that gross write-downs in 2009 will be lower than the levels of 2008.

[In progressing strategy](#) in 2008, we have announced a number of acquisitions – Lehman Brothers North American businesses, Goldfish in the UK, Expobank in Russia, Akita Bank in Indonesia – and we also launched or expanded banking platforms in Pakistan and India. These steps will, we believe, have a significant collective impact in the future. We have also, of course, raised large amounts of new equity and other capital, increasing our shareholders' equity by almost 50% during the year.

As we look forward to 2009 it is clear that the economic and business environment will remain very difficult, and the quality of our assets and risk management capability will again be tested. The scale of our market presence in the geographies where we do business means that we will not avoid the consequences of severe downturn. Although we have been careful over recent years to avoid inappropriate risk concentration in our major loan books in retail and commercial banking, our plans for 2009 assume that impairment will continue to be at a high level.

2009 Strategic Framework

Our framework for moving the strategy forward in 2009 has the following features:

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Responsible corporate citizenship. Governments in the UK and elsewhere have taken significant steps to address the impacts of the financial crisis and recession, and we must work with the authorities and, of course, with our customers, to deal with the crisis in a way which is consistent with our obligations to shareholders.

We have committed to recommencing **dividend** payments during the second half of 2009. Thereafter, and as previously announced, dividend payments will be made on a quarterly basis. We will set out our dividend policy at the Annual General Meeting in April.

Note

- a Includes redemption of £3.1bn leveraged finance exposure in January 2009.

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We must ensure that our [capital position](#) is robust and our [balance sheet](#) well-managed. We set out within the Financial Review our approach to managing leverage in the balance sheet, and our expectations for capital ratios. For 2009, returns will rank ahead of growth.

To create good returns at this time, we must preserve [strategic and operational choice](#). As conditions remain very difficult in 2009, we expect that there will be considerable value at stake for our shareholders in decisions that we take relating to resource utilisation, capital allocation and risk management. Our objective over time is to ensure that the cost of the capital we raised last November is covered many times over by the benefits of pursuing our strategy.

We must deliver [solid profitability](#) notwithstanding the global downturn. Our diversified income streams have served us well in recent years and have enabled us to absorb substantial costs from the financial crisis. We expect them to continue to do so.

We will seek to manage [the composition of our profits, and capital allocation](#), to ensure that we optimise returns from our universal banking business model. What does this mean? It is clear to us that in the future there will be more capital in the banking system, and less leverage, particularly in capital markets businesses. This will be true at Barclays too, and will govern our approach to capital allocation and expected returns. We expect to see balance sheet utilisation by Barclays Capital fall over time, which will help us to deliver strengthening returns. We believe that the businesses that we have built from the integration of Lehman Brothers North American businesses and Barclays Capital will help in this regard, since the capital intensity of the advisory businesses in M&A and of the flow businesses in fixed income, currencies, equities and credit will be lower, once we have managed down our credit market exposures.

Goals

We set out last year our goals for economic profit for 2008 through 2011. Those were based on, amongst other things, the then regulatory capital requirements for the business and the then cost of equity. The regulatory capital requirements were significantly increased last year by the UK Financial Services Authority. The observed cost of equity has also increased. It is right, therefore, that we revisit our goals, to ensure that they are properly aligned with our new return and balance sheet objectives, and with the interests of our owners. We intend to publish revised goals in due course that reflect the changes to the environment in the past two years.

Outlook

We expect 2009 to be another challenging year with continuing downturns or recessions in many of the economies in which we are represented. In 2008 our profits were reduced by the impacts of substantial gross credit market losses. In 2009, we expect the impact of such credit market losses to be lower. Whilst we are confident in the relative quality of our major books of assets, we also expect the recessionary environments in the UK, Spain, South Africa and the US to increase the loan loss rates on our loans and advances.

Governments in the UK and elsewhere have taken significant measures to assist borrowers and lenders in response to the emerging recession, including reducing official interest rates. The low interest rate environment will have the impact of substantially reducing the spread generated on our retail and commercial banking deposits, particularly in the UK, but we expect the combined impact of these government measures to be positive for the economy in time.

2009 Trading

Customer and client activity levels were high in the first month of 2009, and we have had a good start to the year. In particular, the operating performance of Barclays Capital, benefiting from the now complete integration of the Lehman Brothers North American businesses, was extremely strong. The trends that lie behind the strong operating performance in Global Retail and Commercial Banking in 2008 were again observable in its performance in January.

Conclusion

I end this review by recording the Board's appreciation of the dedication and hard work of our 150,000 people. We are doing more business with more customers and clients than at any time in our history, and have generated substantial profits. That we have been able to do this reflects the continuing focus of Barclays employees on delivering high-quality service to clients and customers despite the difficult conditions of the year.

John Varley
Group Chief Executive

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Financial review

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Consolidated income statement

For the year ended 31st December

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m ^a
Net interest income	11,469	9,610	9,143	8,075	6,833
Net fee and commission income	8,407	7,708	7,177	5,705	4,847
Principal transactions	2,009	4,975	4,576	3,179	2,514
Net premiums from insurance contracts	1,090	1,011	1,060	872	1,042
Other income	377	188	214	147	131
Total income	23,352	23,492	22,170	17,978	15,367
Net claims and benefits incurred on insurance contracts	(237)	(492)	(575)	(645)	(1,259)
Total income net of insurance claims	23,115	23,000	21,595	17,333	14,108
Impairment charges and other credit provisions	(5,419)	(2,795)	(2,154)	(1,571)	(1,093)
Net income	17,696	20,205	19,441	15,762	13,015
Operating expenses	(14,366)	(13,199)	(12,674)	(10,527)	(8,536)
Share of post-tax results of associates and joint ventures	14	42	46	45	56
Profit before business acquisitions and disposals	3,344	7,048	6,813	5,280	4,535
Profit on disposal of subsidiaries, associates and joint ventures	327	28	323		45
Gains on acquisitions	2,406				
Profit before tax	6,077	7,076	7,136	5,280	4,580
Tax	(790)	(1,981)	(1,941)	(1,439)	(1,279)
Profit after tax	5,287	5,095	5,195	3,841	3,301
Profit attributable to minority interests	905	678	624	394	47
Profit attributable to equity holders of the parent	4,382	4,417	4,571	3,447	3,254
	5,287	5,095	5,195	3,841	3,301

Selected financial statistics

Basic earnings per share	59.3p	68.9p	71.9p	54.4p	51.0p
Diluted earnings per share	57.5p	66.7p	69.8p	52.6p	49.8p
Dividends per ordinary share	11.5p	34.0p	31.0p	26.6p	24.0p
Dividend payout ratio	19.4%	49.3%	43.1%	48.9%	47.1%
Profit attributable to the equity holders of the parent as a percentage of:					
average shareholders' equity	16.5%	20.3%	24.7%	21.1%	21.7%
average total assets	0.2%	0.3%	0.4%	0.4%	0.5%
Cost: income ratio	62%	57%	59%	61%	61%
Cost: net income ratio	81%	65%	65%	67%	66%
Average United States Dollar exchange rate used in preparing the accounts	1.86	2.00	1.84	1.82	1.83
Average Euro exchange rate used in preparing the accounts	1.26	1.46	1.47	1.46	1.47
Average Rand exchange rate used in preparing the accounts	15.17	14.11	12.47	11.57	11.83

The financial information above is extracted from the published accounts for the last three years. This information should be read together with, and is qualified by reference to, the accounts and notes included in this report.

Note

^a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Financial review

Income statement commentary

Income statement

Barclays delivered profit before tax of £6,077m in 2008, a decline of 14% on 2007. The results included the following significant items:

gains on acquisitions of £2,406m, including £2,262m gain on acquisition of Lehman Brothers North American businesses

profit on disposal of Barclays Closed UK Life assurance business of £326m

gains on Visa IPO and sales of shares in MasterCard of £291m, distributed widely across the Group

gross credit market losses and impairment of £8,053m, or £4,957m net of related income and hedges of £1,433m and gains on own credit of £1,663m

Profit after tax increased 4% to £5,287m. This reflected an effective tax rate of 13% (2007: 28%) primarily due to the gain on the acquisition of Lehman Brothers North American businesses of £2,262m in part being offset by carried forward US tax losses attributable to Barclays businesses. Earnings per share were 59.3p (2007: 68.9p), a decline of 14% from 2007, reflecting the impact of share issuance during 2008 on the weighted average number of shares in issue.

Income grew 1% to £23,115m. Income in Global Retail and Commercial Banking increased 17% and was particularly strong in businesses outside of the UK to which we have directed significant resource. Income in Investment Banking and Investment Management was down 19%. Barclays Capital was affected by very challenging market conditions in 2008, with income falling by £1,888m (27%) on 2007, reflecting gross losses of £6,290m relating to credit market assets, partially offset by gains of £1,663m on the fair valuation of notes issued by Barclays

Capital due to widening of credit spreads and £1,433m in related income and hedges. Excluding credit market related losses, gains on own credit and related income and hedges, income in Barclays Capital increased 6%.

Impairment charges and other credit provisions of £5,419m increased 94% on the prior year. Impairment charges included £1,763m arising from US sub-prime mortgages and other credit market exposures. Other wholesale impairment charges increased significantly as corporate credit conditions turned sharply worse. In Barclays Capital increased charges also arose in prime services, corporate lending and private equity. In Barclays Commercial Bank, increased impairment charges reflected the UK economy moving into recession. In the UK there was a moderate increase in impairment in UK Retail Banking as a result of book growth and a deteriorating economic environment. UK mortgage impairment charges remained low. There was a lower charge in UK cards as net flows into delinquency and arrears levels reduced. Significant impairment growth in our Global Retail and Commercial Banking businesses outside the UK reflected very strong book growth in recent years, and maturation of those portfolios, together with deteriorating credit conditions and rising delinquency rates in the US, South Africa and Spain.

Operating expenses increased 9% to £14,366m. We continued to invest in our distribution network in the Global Retail and Commercial Banking businesses. Expenses fell in Barclays Capital due to lower performance related costs. Expenses in Barclays Global Investors included selective support of liquidity products of £263m (2007: £80m). Group gains from property disposals were £148m (2007: £267m). Head office reflects £101m due to the cost of the contribution to the UK Financial Services Compensation Scheme. Underlying cost growth was well controlled. The Group cost:income ratio deteriorated by five percentage points to 62%.

Income statement commentary

Net interest income

2008/07

Group net interest income increased 19% (£1,859m) to £11,469m (2007: £9,610m) reflecting balance sheet growth across the Global Retail and Commercial Banking businesses and in particular very strong growth internationally driven by expansion of the distribution network and entrance into new markets. An increase in net interest income was also seen in Barclays Capital due to strong results from global loans and money markets.

Group net interest income includes the impact of structural hedges which function to reduce the impact of the volatility of short-term interest rate movements on equity and customer balances that do not re-price with market rates. The contribution of structural hedges relative to average base rates increased income by £117m (2007: £351m expense), largely due to the effect of the structural hedge on changes in interest rates.

2007/06

Group net interest income increased 5% (£467m) to £9,610m (2006: £9,143m) reflecting balance sheet growth across a number of businesses. The contribution of structural hedges relative to average base rates decreased to £351m expense (2006: £26m income), largely due to the effect of the structural hedge on changes in interest rates. Other interest expense principally includes interest on repurchase agreements and hedging activity.

Business margins

2008/07

UK Retail Banking assets margin increased five basis points to 1.25% (2007: 1.20%) reflecting increased returns from mortgages. The average liabilities margin declined 14 basis points to 2.01% (2007: 2.15%) reflecting the reductions in UK base rates in the second half of 2008.

Barclays Commercial Bank assets margin decreased 25 basis points to 1.55% (2007: 1.80%) due, in part, to a continued focus on lower risk term lending. The liabilities margin declined two basis points to 1.47% (2007: 1.49%) partly reflecting the reductions in UK base rates in the second half of 2008.

Barclaycard assets margin increased 41 basis points to 6.92% (2007: 6.51%) due to a change in the product mix with an increased weighting to card lending, following the decision to stop writing new business in FirstPlus.

GRCB Western Europe assets margin increased three basis points to 1.16% (2007: 1.13%) reflecting the focus on repricing assets and strong growth in unsecured lending resulting in change in the product mix. The liabilities margin decreased 40 basis points to 1.24% (2007: 1.64%) due to campaigns offering attractive deposit rates resulting in margin compression.

GRCB Emerging Markets assets margin decreased 167 basis points to 4.95% (2007: 6.62%) reflecting higher funding costs, partially offset by improvement in the product mix. The liabilities margin improved 142 basis points to 2.17% (2007: 0.75%) driven by a change in the product mix and a higher return from funding the assets.

GRCB Absa assets margin increased nine basis points to 2.79% (2007: 2.70%) as a result of a focus on pricing for risk and a change in the composition of the book, partially offset by the higher cost of wholesale

Net interest income

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	2008	2007	2006
	£m	£m	£m
Cash and balances with central banks	174	145	91
Available for sale investments	2,355	2,580	2,811
Loans and advances to banks	1,267	1,416	903
Loans and advances to customers	23,754	19,559	16,290
Other	460	1,608	1,710
Interest income	28,010	25,308	21,805
Deposits from banks	(2,189)	(2,720)	(2,819)
Customer accounts	(6,697)	(4,110)	(3,076)
Debt securities in issue	(5,910)	(6,651)	(5,282)
Subordinated liabilities	(1,349)	(878)	(777)
Other	(396)	(1,339)	(708)
Interest expense	(16,541)	(15,698)	(12,662)
Net interest income	11,469	9,610	9,143

Average balances

	2008	2007	2006
	£m	£m	£m
UK Retail Banking assets	90,263	78,502	73,593
UK Retail Banking liabilities	85,892	81,848	76,498
Barclays Commercial Bank assets	61,710	53,947	52,330
Barclays Commercial Bank liabilities	47,624	46,367	44,839
Barclaycard assets	23,552	18,976	17,728
GRCB Western Europe assets	41,540	30,145	24,812
GRCB Western Europe liabilities	10,429	7,489	6,404
GRCB Emerging Markets assets	7,195	3,559	2,258
GRCB Emerging Markets liabilities	7,568	5,115	4,018
GRCB Absa assets	27,706	25,333	23,720
GRCB Absa liabilities	13,454	11,511	10,897
Barclays Wealth assets	9,749	7,403	5,543
Barclays Wealth liabilities	37,205	31,151	27,744

Business margins

	2008	2007	2006
	%	%	%
UK Retail Banking assets	1.25	1.20	1.32
UK Retail Banking liabilities	2.01	2.15	2.05
Barclays Commercial Bank assets	1.55	1.80	1.92
Barclays Commercial Bank liabilities	1.47	1.49	1.46
Barclaycard assets	6.92	6.51	7.05
GRCB Western Europe assets	1.16	1.13	1.11
GRCB Western Europe liabilities	1.24	1.64	1.70
GRCB Emerging Markets assets	4.95	6.62	8.46
GRCB Emerging Markets liabilities	2.17	0.75	0.93
GRCB Absa assets	2.79	2.70	2.81
GRCB Absa liabilities	3.06	3.21	2.87
Barclays Wealth assets	1.04	1.11	1.08
Barclays Wealth liabilities	0.95	1.03	1.10

funding. The liabilities margin decreased 15 basis points to 3.06% (2007: 3.21%) reflecting the emphasis on liquidity and strong growth in lower margin retail deposits.

Barclays Wealth assets margin decreased seven basis points to 1.04% (2007: 1.11%) reflecting changes in the product mix. The liabilities margin reduced by eight basis points to 0.95% (2007: 1.03%) driven by changes in the product mix and compression of margins as interest rates reduced during the second half of the year.

2007/06

UK Retail Banking assets margin decreased 12 basis points to 1.20% (2006: 1.32%) principally due to the increased proportion of mortgages and the contraction in unsecured loans. UK Retail Banking liabilities margin increased 10 basis points to 2.15% (2006: 2.05%) due to pricing initiatives and changes in the product mix.

Barclays Commercial Bank assets margin decreased by 12 basis points to 1.80% (2006: 1.92%) due to changes in the product mix. Barclays Commercial Bank liabilities margin remained broadly stable at 1.49% (2006: 1.46%).

Barclaycard assets margin decreased 54 basis points to 6.51% (2006: 7.05%) due to higher average base rates across core markets and an increased weighting to secured lending.

GRCB Western Europe assets margin of 1.13% (2006: 1.11%) was broadly stable. The liabilities margin declined 6 basis points to 1.64% (2006: 1.70%) primarily driven by changes in product and country mix.

GRCB Emerging Markets asset margin declined 184 basis points to 6.62% (2006: 8.46%) reflecting competitive pricing to drive volume growth. The liabilities margin declined 18 basis points to 0.75% (2006: 0.93%) primarily driven by changes in product and country mix.

GRCB Absa assets margin decreased 11 basis points to 2.70% (2006: 2.81%) due to increased competition, increase in interest rates and changes in the product mix. The liabilities margin increased 34 basis points to 3.21% (2006: 2.87%) driven by a re-pricing of customer deposits and higher interest rates.

Barclays Wealth assets margin increased three basis points to 1.11% (2006: 1.08%) due to changes in the product mix. The liabilities margin decreased seven basis points to 1.03% (2006: 1.10%) due to competitive pricing.

Net fee and commission income

2008/07

Net fee and commission income increased 9% (£699m) to £8,407m (2007: £7,708m). Banking and credit related fees and commissions increased 13% (£845m) to £7,208m (2007: £6,363m), reflecting growth in Barclaycard International, increased fees from advisory and origination activities in Barclays Capital and increased foreign exchange, derivative and debt fees in Barclays Commercial Bank.

2007/06

Net fee and commission income increased 7% (£531m) to £7,708m (2006: £7,177m). Fee and commission income rose 8% (£673m) to £8,678m (2006: £8,005m) reflecting increased management and securities lending fees in Barclays Global Investors, increased client assets and higher transactional income in Barclays Wealth and higher income generated from lending fees in Barclays Commercial Bank. Fee income in Barclays Capital increased primarily due to the acquisition of HomeEq.

Business net interest income

2008 £m	2007 £m	2006 £m
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UK Retail Banking assets	1,132	939	970
UK Retail Banking liabilities	1,723	1,763	1,566
Barclays Commercial Bank assets	955	970	1,005
Barclays Commercial Bank liabilities	700	693	655
Barclaycard assets	1,629	1,236	1,248
GRCB Western Europe assets	483	341	274
GRCB Western Europe liabilities	129	123	109
GRCB Emerging Markets assets	356	235	214
GRCB Emerging Markets liabilities	164	39	37
GRCB Absa assets	774	686	664
GRCB Absa liabilities	411	369	313
Barclays Wealth assets	101	82	60
Barclays Wealth liabilities	355	320	306
Business net interest income	8,912	7,796	7,421

Reconciliation of business interest

income to Group net interest income

	2008	2007	2006
	£m	£m	£m
Business net interest income	8,912	7,796	7,421
Other:			
Barclays Capital	1,724	1,179	1,158
Barclays Global Investors	(38)	(8)	10
Other	871	643	554
Group net interest income	11,469	9,610	9,143

Net fee and commission income

	2008	2007	2006
	£m	£m	£m
Brokerage fees	87	109	70
Investment management fees	1,616	1,787	1,535
Securities lending	389	241	185
Banking and credit related fees and commissions	7,208	6,363	6,031
Foreign exchange commission	189	178	184
Fee and commission income	9,489	8,678	8,005
Fee and commission expense	(1,082)	(970)	(828)
Net fee and commission income	8,407	7,708	7,177

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Financial review

Income statement commentary

Principal transactions

2008/07

Principal transactions decreased 60% (£2,966m) to £2,009m (2007: £4,975m).

Net trading income decreased 65% (£2,430m) to £1,329m (2007: £3,759m). The majority of the Group's net trading income arises in Barclays Capital. Growth in the Rates related business reflected growth in fixed income, prime services, foreign exchange, commodities and emerging markets. The Credit related business included net losses from credit market dislocation partially offset by the benefits of widening credit spreads on structured notes issued by Barclays Capital.

Net investment income decreased 44% (£536m) to £680m (2007: £1,216m). The cumulative gain from disposal of available for sale assets decreased 62% (£348m) to £212m (2007: £560m) reflecting the lower profits realised on the sale of investments. The £212m gain in 2008 included the £47m gain from sale of shares in MasterCard.

The dividend income increased £170m to £196m (2007: £26m) reflecting the Visa IPO dividend received by GRCB Western Europe, GRCB Emerging Markets and Barclaycard in the current year. The GRCB Absa gain on the Visa IPO of £47m has been recognised in other income.

Net gain from financial instruments designated at fair value decreased 89% (£260m) to £33m (2007: £293m), driven by the continued decrease in value of assets backing customer liabilities in Barclays Life Assurance; and fair value decreases of a number of investments reflecting the current market condition.

Other investment income decreased 29% (£98m) to £239m (2007: £337m) due to a number of non-recurring disposals in the prior year.

2007/06

Principal transactions increased 9% (£399m) to £4,975m (2006: £4,576m).

Net trading income increased 4% (£145m) to £3,759m (2006: £3,614m). The majority of the Group's net trading income arose from Barclays Capital. Growth in the Rates related business reflected very strong performances in fixed income, commodities, foreign exchange, equity and prime services. The Credit related business included net losses from credit market turbulence and the benefits of widening credit spreads on structured notes issued by Barclays Capital.

Net investment income increased 26% (£254m) to £1,216m (2006: £962m). The cumulative gain from disposal of available for sale assets increased 82% (£253m) to £560m (2006: £307m) largely as a result of a number of private equity realisations and divestments. Net income from financial instruments designated at fair value decreased by 34% (£154m) largely due to lower growth in the value of linked insurance assets within Barclays Wealth.

Fair value movements on insurance assets included within net investment income contributed £113m (2006: £205m).

Net premiums from insurance contracts

2008/07

Net premiums from insurance contracts increased 8% (£79m) to £1,090m (2007: £1,011m), primarily due to expansion in GRCB Western Europe reflecting a full year's impact of a range of insurance products launched in late 2007, partially offset by lower net premiums following the sale of the closed life assurance book.

2007/06

Net premiums from insurance contracts decreased 5% (£49m) to £1,011m (2006: £1,060m), primarily due to lower customer take up of loan protection insurance.

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Other income

2008/07

Certain asset management products offered to institutional clients by Barclays Global Investors are recognised as investment contracts. Accordingly, the invested assets and the related liabilities to investors are held at fair value and changes in those fair values are reported within other income. Other income in 2008 includes a £47m gain from the Visa IPO.

2007/06

Certain asset management products offered to institutional clients by Barclays Global Investors are recognised as investment contracts. Accordingly, the invested assets and the related liabilities to investors are held at fair value and changes in those fair values are reported within other income. Other income in 2007 includes a loss on the part disposal of Monument credit card portfolio and gains on reinsurance transactions in 2007 and 2006.

Principal transactions

	2008 £m	2007 £m	2006 £m
Rates related business	4,751	4,162	2,848
Credit related business	(3,422)	(403)	766
Net trading income	1,329	3,759	3,614
Net gain from disposal of available for sale assets	212	560	307
Dividend income	196	26	15
Net gain from financial instruments designated at fair value	33	293	447
Other investment income	239	337	193
Net investment income	680	1,216	962
Principal transactions	2,009	4,975	4,576

Net premiums from insurance contracts

	2008 £m	2007 £m	2006 £m
Gross premiums from insurance contracts	1,138	1,062	1,108
Premiums ceded to reinsurers	(48)	(51)	(48)
Net premiums from insurance contracts	1,090	1,011	1,060

Other income

	2008 £m	2007 £m	2006 £m
(Decrease)/increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	(10,422)	5,592	7,417
Decrease/(increase) in liabilities to customers under investment contracts	10,422	(5,592)	(7,417)
Property rentals	73	53	55
Loss on part disposal of Monument credit card portfolio		(27)	
Other	304	162	159
Other income	377	188	214

Net claims and benefits incurred on insurance contracts

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	2008	2007	2006
	£m	£m	£m
Gross claims and benefits incurred on insurance contracts	263	520	588
Reinsurers' share of claims incurred	(26)	(28)	(13)
Net claims and benefits incurred on insurance contracts	237	492	575

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Net claims and benefits incurred on insurance contracts

2008/07

Net claims and benefits incurred under insurance contracts decreased 52% (£255m) to £237m (2007: £492m), principally due to a decrease in the value of unit linked insurance contracts in Barclays Wealth; explained by falls in equity markets and disposal of closed life business in October 2008. Partially offsetting these trends is the increase in contract liabilities associated with increased net premiums driven by the growth in GRCB Western Europe.

2007/06

Net claims and benefits incurred under insurance contracts decreased 14% (£83m) to £492m (2006: £575m), principally reflecting lower investment gains attributable to customers in Barclays Wealth.

Impairment charges and other credit provisions

2008/07

Impairment charges in UK Retail Banking increased £43m to £602m (2007: £559m), reflecting growth in the book and deteriorating economic conditions. In UK Home Finance, whilst three month arrears increased from 0.63% to 0.91%, the quality of the book and conservative loan to value ratios meant that the impairment charges and amounts charged off remained low at £24m (2007: £3m release). Impairment charges in Consumer Lending increased 3%, reflecting the current economic environment and loan growth.

The impairment charge in Barclays Commercial Bank increased £122m to £414m (2007: £292m), primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated.

The impairment charge in Barclaycard increased £270m to £1,097m (2007: £827m), reflecting higher charges in Barclaycard International portfolios, particularly Barclaycard US which was driven by loan growth, rising delinquency due to deteriorating economic conditions and exchange rate movements; and £68m from the inclusion of Goldfish. These factors were partially offset by lower charges in UK Cards and secured consumer lending.

Impairment charges in GRCB Western Europe increased £220m to £296m (2007: £76m), principally due to deteriorating economic trends and asset growth in Spain, where there were higher charges in the commercial portfolios as a consequence of the slowdown in the property and construction sectors. In addition, higher household indebtedness and rising unemployment has driven up delinquency and charge-offs in the personal sector.

Impairment charges in GRCB Emerging Markets increased £127m to £166m (2007: £39m), reflecting: weakening credit conditions which adversely impacted delinquency trends in the majority of the retail portfolios; asset growth, particularly in India; and increased wholesale impairment in Africa.

Impairment charges in GRCB Absa increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Barclays Capital impairment charges of £2,423m (2007: £846m) included a charge of £1,763m (2007: £782m) against ABS CDO Super Senior and other credit market positions. Further impairment charges of £241m were incurred in respect of available for sale assets and reverse repurchase agreements (2007: nil). Other impairment charges increased £355m to £419m (2007: £64m) and primarily related to charges in the private equity and other loans business.

The impairment charge in Barclays Wealth increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

The impairment charge In Head office functions and other operations increased £8m to £11m (2007: £3m), mainly reflecting losses on Floating Rate Notes held for hedging purposes. An additional £19m (2007: nil) of impairment charges were incurred on available for sale assets.

Impairment charges and other credit provisions

	2008	2007	2006
	£m	£m	£m
Impairment charges on loans and advances			
New and increased impairment allowances	5,116	2,871	2,722
Releases	(358)	(338)	(389)
Recoveries	(174)	(227)	(259)
Impairment charges on loans and advances	4,584	2,306	2,074
Charge/(release) in respect of provision for undrawn contractually committed facilities and guarantees provided	329	476	(6)
Impairment charges on loans and advances and other credit provisions	4,913	2,782	2,068
Impairment charges on reverse repurchase agreements	124		
Impairment on available for sale assets	382	13	86
Impairment charges and other credit provisions	5,419	2,795	2,154
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures included above:			
Impairment charges on loans and advances	1,218	300	
Charges in respect of undrawn facilities and guarantees	299	469	
Impairment charges on loans and advances and other credit provisions on ABS CDO Super Senior and other credit market exposures	1,517	769	
Impairment charges on reverse repurchase agreements	54		
Impairment charges on available for sale assets	192	13	
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures	1,763	782	

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Financial review

Income statement commentary

2007/06

Impairment charges in UK Retail Banking decreased by £76m to £559m (2006: £635m), reflecting lower charges in unsecured Consumer Lending and Local Business driven by improved collection processes, reduced flows into delinquency, lower arrears trends and stable charge-offs. In UK Home Finance, asset quality remained strong and mortgage charges remained negligible. Mortgage delinquencies as a percentage of outstandings remained stable and amounts charged off were low.

The impairment charge in Barclays Commercial Bank increased £39m to £292m (2006: £253m), primarily due to higher impairment charges in Larger Business, partially offset by a lower charge in Medium Business due to a tightening of the lending criteria.

Impairment charges in Barclaycard decreased £226m to £827m (2006: £1,053m), reflecting reduced flows into delinquency, lower levels of arrears and lower charge-offs in UK Cards. Changes were made to impairment methodologies to standardise the approach and in anticipation of Basel II. The net positive impact of these changes in methodology was offset by the increase in impairment charges in Barclaycard International and secured consumer lending.

Impairment charges in GRCB Western Europe and GRCB Emerging Markets rose by £47m to £115m (2006: £68m), reflecting very strong balance sheet growth in 2006 and 2007 and the impact of lower releases in 2007. Arrears in some of GRCB Absa's retail portfolios deteriorated in 2007, driven by interest rate increases in 2006 and 2007 resulting in pressure on collections.

Barclays Capital impairment charges and other credit provisions of £846m included a charge of £782m against ABS CDO Super Senior and other credit market exposures and £58m net of fees relating to drawn leveraged finance positions.

Operating expenses

2008/07

Operating expenses increased 9% (£1,167m) to £14,366m (2007: £13,199m).

Administrative expenses grew 30% (£1,175m) to £5,153m (2007: £3,978m), reflecting the impact of acquisitions (in particular Lehman Brothers North American businesses and Goldfish), fees associated with Group capital raisings, the cost of the Financial Services Compensation Scheme as well as continued investment in the Global Retail and Commercial Banking distribution network. In addition, Barclays Global Investors' selective support of liquidity products increased to £263m in the year (2007: £80m).

Operating expenses were reduced by gains from the sale of property of £148m (2007: £267m) as the Group continued the sale and leaseback of some of its freehold portfolio, principally in UK Retail Banking, Barclays Commercial Bank and GRCB Western Europe.

Amortisation of intangible assets increased 56% (£105m) to £291m (2007: £186m), primarily related to intangible assets arising from the acquisition of Lehman Brothers North American businesses.

Goodwill impairment of £111m reflects the full write-down of £74m relating to EquiFirst, a US non-prime mortgage originator and a partial write-down of £37m relating to FirstPlus following its closure to new business in August 2008.

2007/06

Operating expenses grew 4% (£525m) to £13,199m (2006: £12,674m). The increase was driven by growth of 3% (£236m) in staff costs to £8,405m (2006: £8,169m) and lower gains on property disposals.

Administrative expenses remained flat at £3,978m (2006: £3,980m), reflecting good cost control across all businesses.

Operating lease rentals increased 20% (£69m) to £414m (2006: £345m), primarily due to increased property held under operating leases.

Operating expenses

	2008	2007	2006
	£m	£m	£m
Staff costs	7,779	8,405	8,169
Administrative expenses	5,153	3,978	3,980
Depreciation	630	467	455
Impairment charges/(releases)			
property and equipment	33	2	14
intangible assets	(3)	14	7
goodwill	111		
Operating lease rentals	520	414	345
Gain on property disposals	(148)	(267)	(432)
Amortisation of intangible assets	291	186	136
Operating expenses	14,366	13,199	12,674

Barclays PLC Annual Report 2008

Operating expenses were reduced by gains from the sale of property of £267m (2006: £432m) as the Group continued the sale and leaseback of some of its freehold portfolio, principally in UK Retail Banking.

Amortisation of intangible assets increased 37% (£50m) to £186m (2006: £136m), primarily reflecting the amortisation of mortgage servicing rights relating to the acquisition of HomEq in November 2006.

Staff costs

2008/07

Staff costs decreased 7% (£626m) to £7,779m (2007: £8,405m). Salaries and accrued incentive payments fell overall by 10% (£720m) to £6,273m (2007: £6,993m), after absorbing increases of £718m relating to in year hiring and staff from acquisitions. Performance related costs were 48% lower, driven mainly by Barclays Capital.

Defined benefit plans pension costs decreased 41% (£61m) to £89m (2007: £150m). This was due to recognition of actuarial gains, higher expected return on assets and reduction in past service costs partially offset by higher interest costs and reduction in curtailment credit.

2007/06

Staff costs increased 3% (£236m) to £8,405m (2006: £8,169m). Salaries and accrued incentive payments rose 5% (£358m) to £6,993m (2006: £6,635m), reflecting increased permanent and fixed term staff worldwide. Defined benefit plans pension costs decreased 47% (£132m) to £150m (2006: £282m). This was mainly due to lower service costs.

Staff numbers

2008/07

Staff numbers are shown on a full-time equivalent basis. Total Group permanent and fixed-term contract staff comprised 60,700 (2007: 61,900) in the UK and 95,600 (2007: 73,000) internationally.

UK Retail Banking staff numbers decreased 300 to 30,400 (2007: 30,700). Barclays Commercial Bank staff numbers increased 600 to 9,800 (2007: 9,200), reflecting investment in product expertise, sales and risk capability and associated support areas. Barclaycard staff numbers increased 700 to 9,600 (2007: 8,900), primarily due to the transfer of staff into Absacard as a result of the acquisition of a majority stake in the South African Woolworth Financial Services business in October 2008. GRCB Western Europe staff numbers increased 2,100 to 10,900 (2007: 8,800), reflecting expansion of the retail distribution network. GRCB Emerging Markets staff numbers increased 8,800 to 22,700 (2007: 13,900), driven by expansion into new markets and continued investment in distribution in existing countries. GRCB Absa staff numbers increased 1,000 to 36,800 (2007: 35,800), reflecting continued growth in the business and investment in collections capacity.

Barclays Capital staff numbers increased 6,900 to 23,100 (2007: 16,200), due principally to the acquisition of Lehman Brothers North American businesses. Barclays Global Investors staff numbers increased 300 to 3,700 (2007: 3,400). Staff numbers increased primarily in the iShares business due to continued expansion in the global ETF franchise. Barclays Wealth staff numbers increased 1,000 to 7,900 (2007: 6,900), principally due to the acquisition of the Lehman Brothers North American businesses.

2007/06

Total Group permanent and fixed term contract staff comprised 61,900 (2006: 62,400) in the UK and 73,000 (2006: 60,200) internationally.

Staff costs

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	2008	2007	2006
	£m	£m	£m
Salaries and accrued incentive payments	6,273	6,993	6,635
Social security costs	464	508	502
Pension costs			
defined contribution plans	237	141	128
defined benefit plans	89	150	282
Other post retirement benefits	1	10	30
Other	715	603	592
Staff costs	7,779	8,405	8,169

Staff numbers

	2008	2007	2006
UK Retail Banking	30,400	30,700	34,500
Barclays Commercial Bank	9,800	9,200	8,100
Barclaycard	9,600	8,900	9,100
GRCB Western Europe	10,900	8,800	6,600
GRCB Emerging Markets	22,700	13,900	7,600
GRCB Absa	36,800	35,800	33,000
Barclays Capital	23,100	16,200	13,200
Barclays Global Investors	3,700	3,400	2,700
Barclays Wealth	7,900	6,900	6,600
Head office functions and other operations	1,400	1,100	1,200
Total Group permanent and fixed-term contract staff worldwide	156,300	134,900	122,600

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Financial review

Income statement commentary

UK Retail Banking headcount decreased 3,800 to 30,700 (2006: 34,500), due to efficiency initiatives in back-office operations and the transfer of operations personnel to Barclays Commercial Bank. Barclays Commercial Bank headcount increased 1,100 to 9,200 (2006: 8,100) due to the transfer of operations personnel from UK Retail Banking and additional investment in front line staff to drive improved geographical coverage. Barclaycard staff numbers decreased 200 to 8,900 (2006: 9,100), due to efficiency initiatives implemented across the UK operation and the sale of part of the Monument card portfolio, partially offset by an increase in the International cards businesses. GRCB Western Europe staff numbers increased 2,200 to 8,800 (2006: 6,600) and GRCB Emerging Markets staff numbers increased 6,300 to 13,900 (2006: 7,600) due to growth in the distribution network. GRCB Absa staff numbers increased 2,800 to 35,800 (2006: 33,000) reflecting growth in the business and distribution network.

Barclays Capital staff numbers increased 3,000 to 16,200 (2006: 13,200) including 800 from the acquisition of EquiFirst. This reflected further investment in the front office, systems development and control functions to support continued business expansion. The majority of organic growth was in Asia Pacific. Barclays Global Investors staff numbers increased 700 to 3,400 (2006: 2,700). Headcount increased in all geographical regions and across product groups and the support functions, reflecting continued investment to support further growth. Barclays Wealth staff numbers increased 300 to 6,900 (2006: 6,600) principally due to the acquisition of Walbrook and increased client-facing professionals.

Share of post-tax results of associates and joint ventures

2008/07

The overall share of post-tax results of associates and joint ventures decreased £28m to £14m (2007: £42m). The share of results from associates decreased £11m mainly due to reduced contribution from private equity associates. The share of results from joint ventures decreased £17m mainly due to reduced contribution from Barclays Capital joint ventures.

2007/06

The overall share of post-tax results of associates and joint ventures decreased £4m to £42m (2006: £46m). The share of results from associates decreased £20m mainly due to the sale of FirstCaribbean International Bank (2006: £41m) at the end of 2006, partially offset by an increased contribution from private equity associates. The share of results from joint ventures increased by £16m mainly due to the contribution from private equity entities.

Profit on disposal of subsidiaries, associates and joint ventures

2008/07

On 31st October 2008 Barclays completed the sale of Barclays Life Assurance Company Ltd to Swiss Reinsurance Company for a net consideration of £729m leading to a net profit on disposal of £326m.

2007/06

The profit on disposal in 2007 related mainly to the disposal of the Group's shareholdings in Gabetti Property Solutions (£8m) and Intelenet Global Services (£13m).

Share of post-tax results of associates and joint ventures

	2008	2007	2006
	£m	£m	£m
Profit from associates	22	33	53
(Loss)/profit from joint ventures	(8)	9	(7)
Share of post-tax results of associates and joint ventures	14	42	46

Profit on disposal of subsidiaries, associates and joint ventures

	2008	2007	2006
	£m	£m	£m
Profit on disposal of subsidiaries, associates and joint ventures	327	28	323

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Gains on acquisitions

2008/07

The gains on acquisitions in 2008 relate to the acquisition of Lehman Brothers North American businesses (£2,262m) on 22nd September 2008, Goldfish credit card UK business (£92m) on 31st March 2008 and Macquarie Bank Limited Italian residential mortgage business (£52m) on 6th November 2008.

Tax

The overall tax charge is explained in the table below.

2008/07

The effective rate of tax for 2008, based on profit before tax, was 13% (2007: 28%). The effective tax rate differs from the 2007 effective rate and the UK corporation tax rate of 28.5% principally due to the Lehman Brothers North American businesses acquisition. Under IFRS the gain on acquisition of £2,262m is calculated net of deferred tax liabilities included in the acquisition balance sheet and is thus not subject to further tax in calculating the tax charge for the year. Furthermore, Barclays has tax losses previously unrecognised as a deferred tax asset but capable of sheltering part of this deferred tax liability. This gives rise to a tax benefit of £492m which, in accordance with IAS 12, is included as a credit within the tax charge for the year. The effective rate has been adversely impacted by the effect of the fall in the Barclays share price on the deferred tax asset recognised on share awards. In common with prior years there have been offsetting adjustments relating to different overseas tax rates, disallowable expenditure and non-taxable gains and income.

2007/06

The tax charge for the period was based on a UK corporation tax rate of 30% (2006: 30%). The effective rate of tax for 2007, based on profit before tax, was 28% (2006: 27%). The effective tax rate differed from 30% as it took account of the different tax rates applied to profits earned outside the UK, non-taxable gains and income and adjustments to prior year tax provisions. The forthcoming change in the UK rate of corporation tax from 30% to 28% on 1st April 2008 led to an additional tax charge in 2007 as a result of its effect on the Group's net deferred tax asset. The effective tax rate for 2007 was higher than the 2006 rate, principally because there was a higher level of profit on disposals of subsidiaries, associates and joint ventures offset by losses or exemptions in 2006.

Economic profit

Economic profit comprises:

Profit after tax and minority interests; less

Capital charge (average shareholders' equity and goodwill excluding minority interests multiplied by the Group cost of capital). The Group cost of capital has been applied at a uniform rate of 10.5%^a. The costs of servicing preference shares are included in minority interests, so preference shares are excluded from average shareholders' equity for economic profit purposes.

Gains on acquisitions

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	2008 £m	2007 £m	2006 £m
Gains on acquisitions	2,406		

Tax

	2008 £m	2007 £m	2006 £m
Profit before tax	6,077	7,076	7,136
Tax charge at average UK corporation tax rate of 28.5% (2007: 30%, 2006: 30%)	1,732	2,123	2,141
Prior year adjustments	(176)	(37)	24
Differing overseas tax rates	215	(77)	(17)
Non-taxable gains and income (including amounts offset by unrecognised tax losses)	(833)	(136)	(393)
Share-based payments	229	72	27
Deferred tax assets not previously recognised	(514)	(158)	(4)
Change in tax rates	(1)	24	4
Other non-allowable expenses	138	170	159
Overall tax charge	790	1,981	1,941
Effective tax rate	13%	28%	27%

Reconciliation of economic profit

	2008 £m	2007 £m	2006 £m
Profit attributable to equity holders of the parent	4,382	4,417	4,571
Addback of amortisation charged on acquired intangible assets ^b	254	137	83
Profit for economic profit purposes	4,636	4,554	4,654
Average shareholders' equity for economic profit purposes ^{c, d} (rounded to nearest £50m)	27,400	23,700	20,500
Post-tax cost of equity	10.5%	9.5%	9.5%
Capital charge ^a	(2,876)	(2,264)	(1,950)
Economic profit	1,760	2,290	2,704

Notes

- a The Group's cost of capital changed from 1st January 2008 to 10.5% (2007: 9.5%).
- b Amortisation charged for purchased intangibles, adjusted for tax and minority interests.
- c Average ordinary shareholders' equity for Group economic profit calculation is the sum of adjusted equity and reserves plus goodwill and intangible assets arising on acquisition, but excludes preference shares.
- d Averages for the period will not correspond exactly to period end balances disclosed in the balance sheet. Numbers are rounded to the nearest £50m for presentation purposes only.

Financial review

Consolidated balance sheet

As at 31st December

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m ^a
Assets					
Cash and other short-term funds	31,714	7,637	9,753	5,807	3,525
Treasury bills and other eligible bills	n/a	n/a	n/a	n/a	6,658
Trading portfolio and financial assets designated at fair value	306,836	341,171	292,464	251,820	n/a
Derivative financial instruments	984,802	248,088	138,353	136,823	n/a
Debt securities and equity securities	n/a	n/a	n/a	n/a	141,710
Loans and advances to banks	47,707	40,120	30,926	31,105	80,632
Loans and advances to customers	461,815	345,398	282,300	268,896	262,409
Available for sale financial investments	64,976	43,072	51,703	53,497	n/a
Reverse repurchase agreements and cash collateral on securities borrowed	130,354	183,075	174,090	160,398	n/a
Other assets	24,776	18,800	17,198	16,011	43,247
Total assets	2,052,980	1,227,361	996,787	924,357	538,181
Liabilities					
Deposits and items in the course of collection due to banks	116,545	92,338	81,783	77,468	112,229
Customer accounts	335,505	294,987	256,754	238,684	217,492
Trading portfolio and financial liabilities designated at fair value	136,366	139,891	125,861	104,949	n/a
Liabilities to customers under investment contracts	69,183	92,639	84,637	85,201	n/a
Derivative financial instruments	968,072	248,288	140,697	137,971	n/a
Debt securities in issue	149,567	120,228	111,137	103,328	83,842
Repurchase agreements and cash collateral on securities lent	182,285	169,429	136,956	121,178	n/a
Insurance contract liabilities, including unit-linked liabilities	2,152	3,903	3,878	3,767	8,377
Subordinated liabilities	29,842	18,150	13,786	12,463	12,277
Other liabilities	16,052	15,032	13,908	14,918	87,200
Total liabilities	2,005,569	1,194,885	969,397	899,927	521,417
Shareholders' equity					
Shareholders' equity excluding minority interests	36,618	23,291	19,799	17,426	15,870
Minority interests	10,793	9,185	7,591	7,004	894
Total shareholders' equity	47,411	32,476	27,390	24,430	16,764
Total liabilities and shareholders' equity	2,052,980	1,227,361	996,787	924,357	538,181
Risk weighted assets and capital ratios^b					
Risk weighted assets	433,302	353,878	297,833	269,148	218,601
Tier 1 ratio	8.6%	7.6%	7.7%	7.0%	7.6%
Risk asset ratio	13.6%	11.2%	11.7%	11.3%	11.5%
Selected financial statistics					
Net asset value per ordinary share	437p	353p	303p	269p	246p
Year-end United States Dollar exchange rate used in preparing the accounts	1.46	2.00	1.96	1.72	1.92
Year-end Euro exchange rate used in preparing the accounts	1.04	1.36	1.49	1.46	1.41
Year-end Rand exchange rate used in preparing the accounts	13.74	13.64	13.71	10.87	10.86

The financial information above is extracted from the published accounts for the last three years. This information should be read together with, and is qualified by reference to, the accounts and Notes included in this report.

Notes

- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

- b Risk weighted assets and capital ratios for 2006, 2005 and 2004 are calculated on a Basel I basis. Risk weighted assets and capital ratios for 2008 and 2007 are calculated on a Basel II basis. Capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the Financial Services Authority (FSA). As at 1st January 2005 the Tier 1 ratio was 7.1% and the risk asset ratio was 11.8% reflecting the impact of IFRS including the adoption of IAS 32, IAS 39 and IFRS 4.

Financial review

Balance sheet commentary

Balance sheet

Total assets increased £826bn to £2,053bn in 2008. Of this increase, £737bn was attributable to an increase in derivative assets and £124bn was attributable to increased loans and advances. All other assets declined by £35bn.

Shareholders' equity

Shareholders' equity, excluding minority interests increased, nearly 57% from £23bn at the end of 2007 to £37bn at the end of 2008. The main drivers for this were: equity issuances in July and September of £5.0bn; equity impact of issuing Mandatorily Convertible Notes and Warrants of £4.4bn; and after-tax profits of £5.3bn. Other reserves increased £1.6bn and we paid dividends of £2.3bn.

Capital management

At 31st December 2008, on a Basel II basis the equity Tier 1 ratio was 6.7% and the Tier 1 ratio was 9.7%, both stated on a pro forma basis to reflect conversion into ordinary shares of the Mandatorily Convertible Notes and inclusion of all innovative Tier 1 capital. Capital ratios reflect a 22% increase in risk weighted assets to £433bn during the year. This was driven by the combined impacts on risk weighted assets of the weakening of Sterling and the pro-cyclical effects of the International Basel Accord as well as lending growth in 2008. The capital ratios reflect this risk weighted asset growth and benefited from the significant increases in our capital over the course of 2008. The pro forma ratios significantly exceed the minimum levels established by the UK Financial Services Authority.

On 19th January 2009 the UK government announced, amongst other measures, an asset protection scheme under which banks may insure certain assets on their balance sheet. We are working with the Tripartite Authorities (Her Majesty's Treasury, Bank of England and the

UK Financial Services Authority) to determine the terms on which, and the extent to which, we would wish to participate in the scheme. The procuring of such insurance could have the effect of reducing risk weighted assets. The UK Financial Services Authority also announced on 19th January 2009 a programme of work to reduce significantly the requirement for additional capital raising from the pro-cyclical effects of the International Basel Accord.

We expect a single digit percentage rate of risk weighted asset growth in 2009.

We expect to maintain the equity Tier 1 ratio and Tier 1 ratio at levels which significantly exceed the minimum requirements of the UK Financial Services Authority for the duration of the current period of financial and economic stress.

Foreign Currency Translation

Assets and risk weighted assets were affected by the decline in value of Sterling relative to other currencies during 2008, particularly in the last two months of the year. Over the course of the year, Sterling depreciated by 37% relative to the US Dollar and 31% relative to the Euro. We estimate that currency movements contributed £60bn to risk weighted assets.

Our hedging strategy in respect of net investments in foreign currencies is designed to mitigate against the impact of such movements on our capital ratios. In this regard, equity and Tier 1 capital ratios are hedged to approximately 75%, 30% and 100% of the movements in US Dollar, Euro and South African Rand respectively against Sterling.

The currency translation reserve increased by £3.1bn year on year. This reflected foreign exchange movements in foreign currency net investments which are largely economically hedged through preference share capital (denominated in US Dollars and Euros) that is not revalued for accounting purposes.

Balance sheet commentary

Total assets and risk weighted assets^a

2008/07

Total assets increased 67% to £2,053.0bn (2007: £1,227.4bn). Risk weighted assets increased 22% to £433.3bn (2007: £353.9bn).

UK Retail Banking total assets increased 15% to £101.4bn (31st December 2007: £88.5bn) driven by growth in mortgage balances. Risk weighted assets decreased 3% to £30.5bn (31st December 2007: £31.5bn) as lending growth mainly in high quality, low risk mortgages was more than offset in capital terms by active risk management.

Barclays Commercial Bank total assets grew 13% to £84.0bn (31st December 2007: £74.6bn) driven by higher loans and advances. Risk weighted assets increased 11% to £63.1bn (31st December 2007: £57.0bn). This was slightly lower than asset growth, reflecting a relative increase in lower risk portfolios.

Barclaycard total assets increased 40% to £30.9bn (31st December 2007: £22.1bn) reflecting increases in International assets, the acquisition of Goldfish and the appreciation of the Euro and US Dollar against Sterling. Risk weighted assets increased 35% to £27.3bn (31st December 2007: £20.2bn), driven by acquisitions, the redemption of securitisation deals and exposure growth predominantly in the US.

GRCB Western Europe total assets grew 48% to £64.7bn (31st December 2007: £43.7bn) reflecting growth in retail mortgages, unsecured lending, commercial lending and a 31% appreciation over the year in the value of the Euro against Sterling. Risk weighted assets increased 46% to £36.5bn (31st December 2007: £25.0bn), primarily reflecting underlying lending growth and the appreciation of the Euro.

GRCB Emerging Markets total assets grew 60% to £14.7bn (31st December 2007: £9.2bn) reflecting increases in retail and commercial lending combined with the impact of Sterling depreciation. Risk weighted assets increased 44% to £15.1bn (31st December 2007: £10.5bn), reflecting portfolio growth.

GRCB Absa total assets increased 11% to £40.4bn (31st December 2007: £36.4bn) reflecting broad based asset growth. Risk weighted assets increased 6% to £18.8bn (31st December 2007: £17.8bn), reflecting balance sheet growth.

Barclays Capital total assets increased 94% (£789.2bn) to £1,629.1bn (31st December 2007: £839.9bn) due to an increase in derivative assets of £736.7bn, predominantly driven by significant volatility and movements in yield curves during the year, together with a substantial depreciation in Sterling against most major currencies. Total assets excluding derivatives increased by 9% in Sterling. On a constant currency basis, total assets excluding derivatives decreased by approximately 15%. Risk weighted assets increased 28% to £227.4bn (31st December 2007: £178.2bn). This was driven by the depreciation in Sterling against the US Dollar and Euro, and an increase in market volatility.

Barclays Global Investors total assets decreased 20% to £71.3bn (31st December 2007: £89.2bn), mainly attributable to adverse market movements in certain asset management products recognised as investment contracts. Risk weighted assets decreased 11% to £3.9bn (31st December 2007: £4.4bn) mainly attributed to changes in the asset class mix, partially offset by the weakening of Sterling against other currencies.

Barclays Wealth total assets decreased 27% to £13.3bn (31st December 2007: £18.2bn) reflecting the sale of the closed life assurance business partially offset by strong growth in lending to high net worth and intermediary clients. Risk weighted assets increased 26% to £10.3bn (31st December 2007: £8.2bn) reflecting strong growth in lending.

Head office functions and other operations total assets decreased 46% to £3.1bn (31st December 2007: £5.7bn). Risk weighted assets decreased 64% to £0.4bn (31st December 2007: £1.1bn). The decrease in the year was mainly attributable to the increased netting of Group deferred tax assets and liabilities.

Total assets by business

	2008 £m	2007 £m	2006 £m
UK Retail Banking	101,384	88,477	81,693
Barclays Commercial Bank	84,029	74,566	66,224
Barclaycard	30,925	22,121	20,033
GRCB Western Europe	64,732	43,702	33,487
GRCB Emerging Markets	14,653	9,188	5,219
GRCB Absa	40,391	36,368	29,575
Barclays Capital	1,629,117	839,850	657,922
Barclays Global Investors	71,340	89,218	80,515
Barclays Wealth	13,263	18,188	15,023
Head office functions and other operations	3,146	5,683	7,096
Total assets	2,052,980	1,227,361	996,787

Risk weighted assets by business

	2008 b Basel II £m	2007 b Basel II £m	2007 Basel I £m	2006 Basel I £m
UK Retail Banking	30,491	31,463	46,059	43,020
Barclays Commercial Bank	63,081	57,040	54,325	50,302
Barclaycard	27,316	20,199	19,690	16,873
GRCB Western Europe	36,480	24,971	24,462	17,567
GRCB Emerging Markets	15,080	10,484	6,050	3,255
GRCB Absa	18,846	17,829	22,448	19,809
Barclays Capital	227,448	178,206	169,124	137,635
Barclays Global Investors	3,910	4,369	1,994	1,375
Barclays Wealth	10,300	8,216	7,692	6,077
Head office functions and other operations	350	1,101	1,632	1,920
Total risk weighted assets	433,302	353,878	353,476	297,833

Notes

- a** The 2008/07 commentary on risk weighted assets is on a Basel II basis. The 2007/06 commentary is on a Basel I basis.
- b** Under the Group's securitisation programme, certain portfolios subject to securitisation or similar risk transfer transaction are adjusted in calculating the Group's risk weighted assets. Previously, for pre-2008 transactions, regulatory capital adjustments were allocated to the business in proportion to their RWAs. From 1st January 2008, the regulatory capital adjustments for all transactions are allocated to the business undertaking the securitisation unless the transaction has been undertaken for the benefit of a cluster of businesses, in which case the regulatory capital adjustments are shared.

2007/06

Total assets increased 23% to £1,227.4bn (2006: £996.8bn). Risk weighted assets increased 19% to £353.5bn (2006: £297.8bn). Loans and advances to customers that have been securitised increased £4.3bn to £28.7bn (2006: £24.4bn).

UK Retail Banking total assets increased 8% to £88.5bn (2006: £81.7bn). This was mainly attributable to growth in mortgage balances. Risk weighted assets increased by 7% to £46.1bn (2006: £43.0bn) with growth in mortgages partially offset by an increase in securitised balances and other reductions.

Barclays Commercial Bank total assets grew 13% to £74.6bn (2006: £66.2bn) driven by good growth across lending products. Risk weighted assets increased 8% to £54.3bn (2006: £50.3bn), reflecting asset growth partially offset by increased regulatory netting and an increase in securitised balances.

Barclaycard total assets increased 11% to £22.1bn (2006: £20.0bn). Risk weighted assets increased 17% to £19.7bn (2006: £16.9bn), primarily reflecting the increase in total assets, redemption of securitisation transactions, partially offset by changes to the treatment of regulatory associates and the sale of part of the Monument card portfolio.

GRCB Western Europe total assets grew 31% to £43.7bn (2006: £33.5bn). This growth was mainly driven by increases in retail mortgages and unsecured lending. Risk weighted assets increased 39% to £24.5bn (2006: £17.6bn), reflecting asset growth.

GRCB Emerging Markets total assets grew by 76% to £9.2bn (2006: £5.2bn). This growth was driven by increases in unsecured lending. Risk weighted assets increased 86% to £6.1bn (2006: £3.3bn), reflecting asset growth.

GRCB Absa total assets increased 23% to £36.4bn (2006: £29.6bn), primarily driven by increases in mortgages, credit cards and commercial property finance. Risk weighted assets increased 13% to £22.4bn (2006: £19.8bn), reflecting balance sheet growth.

Barclays Capital total assets rose 28% to £839.9bn (2006: £657.9bn). Derivative assets increased £109.7bn primarily due to movements across a range of market indices. This was accompanied by a corresponding increase in derivative liabilities. The increase in non-derivative assets reflects an expansion of the business across a number of asset classes, combined with an increase in drawn leveraged loan positions and mortgage-related assets. Risk weighted assets increased 23% to £169.1bn (2006: £137.6bn) reflecting growth in fixed income, equities and credit derivatives.

Barclays Global Investors total assets increased 11% to £89.2bn (2006: £80.5bn), mainly attributable to growth in certain asset management products recognised as investment contracts. The majority of total assets relates to asset management products with equal and offsetting balances reflected within liabilities to customers. Risk weighted assets increased 45% to £2.0bn (2006: £1.4bn) mainly attributable to overall growth in the balance sheet and the mix of securities lending activity.

Barclays Wealth total assets increased 21% to £18.2bn (2006: £15.0bn) reflecting strong growth in lending to high net worth, affluent and intermediary clients. Risk weighted assets increased 27% to £7.7bn (2006: £6.1bn) reflecting the increase in lending.

Head office functions and other operations total assets decreased 20% to £5.7bn (2006: £7.1bn). Risk weighted assets decreased 15% to £1.6bn (2006: £1.9bn).

Adjusted gross leverage

The adjusted gross leverage ratio is defined as the multiple of adjusted total tangible assets over total qualifying Tier 1 capital.

Volatility in reference rates and yield curves used for pricing have led to significantly higher values for derivative assets and liabilities. Limited netting is permitted under IFRS, even for receivables and payables with the same counterparty where there are contractually agreed netting arrangements. Derivative assets and liabilities would be £917bn (2007: £215bn) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold cash collateral.

Assets and liabilities also include amounts held under investment contracts with third parties of a further £69bn as at 31st December 2008 (2007: £93bn). These constitute asset management products offered to institutional pension funds which are required to be recognised as financial instruments. Changes in value in these assets are entirely to the account of the beneficial owner of the asset.

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Excluding these items, settlement balances, goodwill and intangible assets, our adjusted total tangible assets were £1,026bn at 31st December 2008 (2007: £888bn). On this basis we define adjusted gross leverage, being the multiple of adjusted total tangible assets over total qualifying Tier 1 capital. At 31st December 2008 adjusted gross leverage was 28x (2007: 33x).

On a pro forma basis, reflecting the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital, our adjusted gross leverage would be 24x. We expect adjusted gross leverage to improve further over time.

Adjusted gross leverage

	2008	2007
	£m	£m
Total assets	2,052,980	1,227,361
Counterparty net/ collateralised derivatives	(917,074)	(215,485)
Financial assets designated at fair value and associated cash balances held in respect of linked liabilities to customers under investment contracts	(69,183)	(92,639)
Net settlement balances	(29,786)	(22,459)
Goodwill and intangible assets	(10,402)	(8,296)
Adjusted total tangible assets	1,026,535	888,482
Total qualifying Tier 1 capital	37,250	26,743
Adjusted gross leverage	28	33

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Balance sheet commentary

Total shareholders' equity

2008/07

Total shareholders' equity increased £14,935m to £47,411m (2007: £32,476m).

Called up share capital comprises 8,372 million ordinary shares of 25p each (2007: 6,600 million ordinary shares of 25p each and 1 million staff shares of £1 each).

Retained earnings increased £3,238m to £24,208m (2007: £20,970m). Profit attributable to the equity holders of the parent of £4,382m and the proceeds of capital raising of £1,410m were partially offset by dividends paid to shareholders of £2,344m. Other equity of £3,652m represents the issue of Mandatorily Convertible Notes, which will convert into ordinary shares by June 2009.

Movements in other reserves, except the capital redemption reserve, reflect the relevant amounts recorded in the consolidated statement of recognised income and expense on page 206.

Minority interests increased £1,608m to £10,793m (2007: £9,185m). The increase primarily reflects a preference share issuance by Barclays Bank PLC of £1,345m.

The Group's authority to buy-back equity shares was renewed at the 2008 AGM.

2007/06

Total shareholders' equity increased £5,086m to £32,476m (2006: £27,390m).

Called up share capital comprises 6,600 million (2006: 6,535 million) ordinary shares of 25p each and 1 million (2006: 1 million) staff shares of £1 each. Called up share capital increased by £17m representing the nominal value of shares issued to Temasek Holdings, China Development Bank (CDB) and employees under share option plans largely offset by a reduction in nominal value arising from share buy-backs. Share premium

reduced by £5,762m; the reclassification of £7,223m to retained earnings resulting from the High Court approved cancellation of share premium was partly offset by additional premium arising on the issuance to CDB and on employee options. The capital redemption reserve increased by £75m representing the nominal value of the share buy-backs.

Retained earnings increased by £8,801m. Increases primarily arose from profit attributable to equity holders of the parent of £4,417m, the reclassification of share premium of £7,223m and the proceeds of the Temasek issuance in excess of nominal value of £941m. Reductions primarily arose from external dividends paid of £2,079m and the total cost of share repurchases of £1,802m.

Movements in other reserves, except the capital redemption reserve, reflect the relevant amounts recorded in the consolidated statement of recognised income and expense on page 206.

Minority interests increased £1,594m to £9,185m (2006: £7,591m). The increase was primarily driven by preference share issuances of £1,322m and an increase in the minority interest in Absa of £225m.

The Group's authority to buy-back equity shares was renewed at the 2007 AGM.

Barclays Bank PLC

Preference shares issued by Barclays Bank PLC are included within share capital and share premium in the Barclays Bank PLC Group but represent minority interests in the Barclays PLC Group. Certain issuances of reserve capital instruments and capital notes by Barclays Bank PLC are included within other shareholders' equity in the Barclays Bank PLC Group but represent minority interests in Barclays PLC Group. The Mandatorily Convertible Notes issued pursuant to the equity issuances by Barclays PLC represent financial liabilities in the financial statements of Barclays Bank PLC and have not been included in shareholders' equity.

Total shareholders' equity

	2008	2007	2006
	£m	£m	£m
Barclays PLC Group			
Called up share capital	2,093	1,651	1,634
Share premium account	4,045	56	5,818
Other equity	3,652		
Available for sale reserve	(1,190)		132
Cash flow hedging reserve	132	26	(230)
Capital redemption reserve	394	384	309
Other capital reserve	617	617	617
Currency translation reserve	2,840	(307)	(438)
Other reserves	2,793	874	390
Retained earnings	24,208	20,970	12,169
Less: Treasury shares	(173)	(260)	(212)
Shareholders' equity excluding minority interests	36,618	23,291	19,799
Minority interests	10,793	9,185	7,591
Total shareholders' equity	47,411	32,476	27,390

Total shareholders' equity

	2008	2007	2006
	£m	£m	£m
Barclays Bank PLC Group			
Called up share capital	2,398	2,382	2,363
Share premium account	12,060	10,751	9,452
Available for sale reserve	(1,249)	111	184
Cash flow hedging reserve	132	26	(230)
Currency translation reserve	2,840	(307)	(438)
Other reserves	1,723	(170)	(484)
Other shareholders' equity	2,564	2,687	2,534
Retained earnings	22,457	14,222	11,556
Shareholders' equity excluding minority interests	41,202	29,872	25,421
Minority interests	2,372	1,949	1,685
Total shareholders' equity	43,574	31,821	27,106

Financial review

Capital management

Capital resources

Tier 1 capital increased by £10.5bn during the year, driven by issues of ordinary shares (£5.2bn), other capital issuances (£4.3bn), retained profits (£2.0bn) and exchange rate movements (£3.2bn). These movements were partially offset by an increase in intangible assets (£1.3bn), innovative Tier 1 capital in excess of regulatory limits being reclassified as Tier 2 capital (£1.3bn) and the reversal of gains on own credit, net of tax (£1.2bn).

Tier 2 capital increased by £8.5bn due to issuance of loan capital (£3.6bn) net of redemptions (£1.1bn), inclusion of innovative capital in excess of the Tier 1 limits (£1.3bn), increases in collective impairment (£1.2bn) and exchange rate movements (£3.9bn).

The Mandatorily Convertible Notes (MCNs) issued during the year (£4.1bn) will qualify as equity capital from the date of their conversion, on or before 30th June 2009.

All capital issuance referred to above is stated gross of issue costs.

Basel I transitional floor

Barclays commenced calculating capital requirements under the Basel II capital framework from 1st January 2008. The Group manages its businesses and reports capital requirements on a Basel II basis. During the transition period for the adoption of Basel II, banks' capital requirements may not fall below a transitional floor. In 2008 this floor was 90% of adjusted Basel I capital requirements. As at 31st December 2008, the Group had additional capital requirements under the transitional floor rules of £1.5bn. The Group's total capital resources of £58.7bn exceeded its capital requirements taking into account the transitional floor by £22.5bn. On 1st January 2009, the transitional floor reduced to 80% of adjusted Basel I capital requirements and there were no additional capital requirements resulting from its application.

Capital ratios

	Basel II 2008		Basel II 2007		Basel I 2007		Basel I 2006	
	Barclays PLC	Barclays Bank PLC	Barclays PLC	Barclays Bank PLC	Barclays PLC	Barclays Bank PLC	Barclays PLC	Barclays Bank PLC
	Group %	Group %	Group %	Group %	Group %	Group %	Group %	Group %
Capital ratios								
Tier 1 ratio	8.6	8.6	7.6	7.3	7.8	7.5	7.7	7.5
Risk asset ratio	13.6	13.5	11.2	11.0	12.1	11.8	11.7	11.5
Risk weighted assets	£m	£m	£m	£m	£m	£m	£m	£m
Credit risk	266,912	266,912	244,474	244,469	265,264	265,259	233,630	233,630
Counterparty risk	70,902	70,902	41,203	41,203	51,947	51,947	33,912	33,912
Market risk	65,372	65,372	39,812	39,812	36,265	36,265	30,291	30,291
Operational risk	30,116	30,116	28,389	28,389	n/a	n/a	n/a	n/a
Total risk weighted assets	433,302	433,302	353,878	353,873	353,476	353,471	297,833	297,833

Total net capital resources

Capital resources (as defined for regulatory purposes)

	£m	£m	£m	£m	£m	£m	£m	£m
Tier 1								
Called up share capital	2,093	2,338	1,651	2,382	1,651	2,382	1,634	2,363
Eligible reserves	31,156	36,639	22,939	26,028	22,526	25,615	19,608	21,700
Minority interests	13,915	8,038	10,551	5,857	10,551	5,857	7,899	4,528
Tier One Notes	1,086	1,086	899	899	899	899	909	909
Less: Intangible assets	(9,964)	(9,964)	(8,191)	(8,191)	(8,191)	(8,191)	(7,045)	(7,045)
Less: Deductions from Tier 1 capital	(1,036)	(1,036)	(1,106)	(1,106)	(28)	(28)		
Total qualifying Tier 1 capital	37,250	37,101	26,743	25,869	27,408	26,534	23,005	22,455
Tier 2								
Revaluation reserves	26	26	26	26	26	26	25	25
Available for sale equity	122	122	295	295	295	295	221	221
Collectively assessed impairment allowances	1,654	1,654	440	440	2,619	2,619	2,556	2,556
Minority interests	607	607	442	442	442	442	451	451
Qualifying subordinated liabilities								
Undated loan capital	6,745	6,768	3,191	3,191	3,191	3,191	3,180	3,180
Dated loan capital	14,215	14,215	10,578	10,578	10,578	10,578	7,603	7,603
Less: Deductions from Tier 2 capital	(1,036)	(1,036)	(1,106)	(1,106)	(28)	(28)		
Total qualifying Tier 2 capital	22,333	22,356	13,866	13,866	17,123	17,123	14,036	14,036
Less: Regulatory deductions								
Investments not consolidated for supervisory purposes	(403)	(403)	(633)	(633)	(633)	(633)	(982)	(982)
Other deductions	(453)	(561)	(193)	(193)	(1,256)	(1,256)	(1,348)	(1,348)
Total deductions	(856)	(964)	(826)	(826)	(1,889)	(1,889)	(2,330)	(2,330)
Total net capital resources	58,727	58,493	39,783	38,909	42,642	41,768	34,711	34,161

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Financial review

Additional financial disclosure

Deposits and short-term borrowings

Deposits

Deposits include deposits from banks and customers accounts.

	Average: year ended 31st December		
	2008	2007	2006
	£m	£m	£m
Deposits from banks			
Customers in the United Kingdom	14,003	15,321	12,832
Customers outside the United Kingdom:			
Other European Union	38,210	33,162	30,116
United States	15,925	6,656	7,352
Africa	3,110	4,452	4,140
Rest of the World	36,599	36,626	35,013
Total deposits from banks	107,847	96,217	89,453
Customer accounts			
Customers in the United Kingdom	206,020	187,249	173,767
Customers outside the United Kingdom:			
Other European Union	30,909	23,696	22,448
United States	31,719	21,908	17,661
Africa	35,692	29,855	23,560
Rest of the World	27,653	23,032	19,992
Customer accounts	331,993	285,740	257,428

Deposits from banks in offices in the United Kingdom received from non-residents amounted to £63,284m (2007: £45,162m).

	Year ended 31st December		
	2008	2007	2006
	£m	£m	£m
Customer accounts	335,505	294,987	256,754
In offices in the United Kingdom:			
Current and Demand accounts interest free	41,351	33,400	25,650
Current and Demand accounts interest bearing	20,898	32,047	31,769
Savings accounts	68,335	70,682	62,745
Other time deposits retail	33,785	36,123	36,110
Other time deposits wholesale	74,417	65,726	53,733
Total repayable in offices in the United Kingdom	238,786	237,978	210,007
In offices outside the United Kingdom:			
Current and Demand accounts interest free	4,803	2,990	2,169
Current and Demand accounts interest bearing	15,463	11,570	17,626
Savings accounts	7,673	3,917	3,041

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Other time deposits	68,780	38,532	23,911
Total repayable in offices outside the United Kingdom	96,719	57,009	46,747

Customer accounts deposits in offices in the United Kingdom received from non-residents amounted to £61,714m (2007: £49,179m).

Short-term borrowings

Short-term borrowings include deposits from banks, commercial paper and negotiable certificates of deposit.

Deposits from banks

Deposits from banks are taken from a wide range of counterparties and generally have maturities of less than one year.

	2008	2007	2006
	£m	£m	£m
Year-end balance	114,910	90,546	79,562
Average balance	107,847	96,217	89,453
Maximum balance	139,836	109,586	97,165
Average interest rate during year	3.6%	4.1%	4.2%
Year-end interest rate	2.3%	4.0%	4.3%

Commercial paper

Commercial paper is issued by the Group, mainly in the United States, generally in denominations of not less than US\$100,000, with maturities of up to 270 days.

	2008	2007	2006
	£m	£m	£m
Year-end balance	27,692	23,451	26,546
Average balance	24,668	26,229	29,740
Maximum balance	27,792	30,736	31,859
Average interest rate during year	4.4%	5.4%	4.4%
Year-end interest rate	4.2%	5.2%	5.0%

Negotiable certificates of deposit

Negotiable certificates of deposits are issued mainly in the United Kingdom and United States, generally in denominations of not less than US\$100,000.

	2008	2007	2006
	£m	£m	£m
Year-end balance	61,332	58,401	52,800
Average balance	55,122	55,394	49,327
Maximum balance	67,715	62,436	60,914
Average interest rate during year	4.4%	5.1%	5.3%
Year-end interest rate	4.1%	5.0%	5.1%

Financial review

Additional financial disclosure

Commitments and contractual obligations

Commercial commitments include guarantees, contingent liabilities and standby facilities.

Commercial commitments

	2008				
	Amount of commitment expiration per period				
	Less than	Between	Between	After	Total
	one year	one to three years	three to five years	five years	amounts committed
	£m	£m	£m	£m	£m
Acceptances and endorsements	576	6	3		585
Guarantees and letters of credit pledged as collateral security	7,272	2,529	1,781	4,070	15,652
Securities lending arrangements	38,290				38,290
Other contingent liabilities	7,989	1,604	372	1,818	11,783
Documentary credits and other short-term trade related transactions	770	88	1		859
Forward asset purchases and forward deposits placed	50	241			291
Standby facilities, credit lines and other	195,035	29,666	26,150	8,815	259,666

	2007				
	Amount of commitment expiration per period				
	Less than	Between	three to	After	Total
	one year	one to three years	five years	five years	amounts committed
	£m	£m	£m	£m	£m
Acceptances and endorsements	365				365
Guarantees and letters of credit pledged as collateral security	6,417	2,711	1,971	1,874	12,973
Securities lending arrangements	22,719				22,719
Other contingent liabilities	6,594	1,556	416	1,151	9,717
Documentary credits and other short-term trade related transactions	401	121			522
Forward asset purchases and forward deposits placed	283				283
Standby facilities, credit lines and other	136,457	17,039	28,127	10,211	191,834

Contractual obligations include debt securities, operating lease and purchase obligations.

Contractual obligations

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	2008				
	Payments due by period				Total
	Between				
	Less than one year	one to three years	Between three to five years	After five years	
£m	£m	£m	£m	£m	
Long-term debt	108,172	24,701	10,855	22,008	165,736
Operating lease obligations	280	690	785	2,745	4,500
Purchase obligations	214	225	61	20	520
Total	108,666	25,616	11,701	24,773	170,756

	2007				
	Payments due by period				Total
	Between				
	Less than one year	one to three years	three to five years	After five years	
£m	£m	£m	£m	£m	
Long-term debt	90,201	13,558	8,630	19,358	131,747
Operating lease obligations	197	755	610	2,225	3,787
Purchase obligations	141	186	27	6	360
Total	90,539	14,499	9,267	21,589	135,894

The long-term debt does not include undated loan capital of £13,673m (2007: £6,631m).

Further information on the contractual maturity of the Group's assets and liabilities is given in Note 49.

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Financial review

Additional financial disclosure

Securities

The following table analyses the book value of securities which are carried at fair value.

	2008		2007		2006	
	Book value	Amortised cost	Book value	Amortised cost	Book value	Amortised cost
	£m	£m	£m	£m	£m	£m
Investment securities available for sale						
Debt securities:						
United Kingdom government	1,238	1,240	78	81	758	761
Other government	11,456	11,338	7,383	7,434	12,587	12,735
Other public bodies	2,373	2,379	634	632	280	277
Mortgage and asset backed securities	3,510	4,126	1,367	1,429	1,706	1,706
Bank and building society certificates of deposit	10,478	10,535	3,028	3,029	6,686	6,693
Corporate and other issuers	29,776	30,363	26,183	26,219	25,895	25,857
Equity securities	2,142	1,814	1,676	1,418	1,371	1,047
Investment securities available for sale	60,973	61,795	40,349	40,242	49,283	49,076
Other securities held for trading						
Debt securities:						
United Kingdom government	6,955	n/a	3,832	n/a	4,986	n/a
Other government	50,727	n/a	51,104	n/a	46,845	n/a
Mortgage and asset backed securities	30,748	n/a	37,038	n/a	29,606	n/a
Bank and building society certificates of deposit	7,518	n/a	17,751	n/a	14,159	n/a
Corporate and other issuers	52,738	n/a	43,053	n/a	44,980	n/a
Equity securities	30,535	n/a	36,307	n/a	31,548	n/a
Other securities held for trading	179,221	n/a	189,085	n/a	172,124	n/a

Investment debt securities include government securities held as part of the Group's treasury management portfolio for asset and liability, liquidity and regulatory purposes and are for use on a continuing basis in the activities of the Group. In addition, the Group holds as investments listed and unlisted corporate securities.

Bank and building society certificates of deposit are freely negotiable and have original maturities of up to five years, but are typically held for shorter periods.

In addition to UK government securities shown above, at 31st December 2008, 2007 and 2006, the Group held the following government securities which exceeded 10% of shareholders' equity.

Government securities

	2008	2007	2006
	Book value	Book value	Book value
	£m	£m	£m
United States	17,165	15,156	18,343
Japan	9,092	9,124	15,505
Germany	5,832	5,136	4,741
France	4,091	3,538	4,336

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Italy	6,091	5,090	3,419
Spain	3,647	3,674	2,859

Maturities and yield of available for sale debt securities

	Maturing within one year		Maturing after one but within five years		Maturing after five but within ten years		Maturing after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	£m	%	£m	%	£m	%	£m	%	£m	%
Government	3,096	6.0	5,410	5.1	1,694	1.1	2,493	0.9	12,693	4.0
Other public bodies	832	1.9	1,526	0.9	1		14	4.7	2,373	1.3
Other issuers	21,749	4.3	9,692	3.8	7,702	4.4	4,622	5.7	43,765	4.3
Total book value	25,677	4.4	16,628	3.9	9,397	3.8	7,129	4.0	58,831	4.1

The yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2008 by the fair value of securities held at that date.

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Financial review

Additional financial disclosure

Average balance sheet

Average balance sheet and net interest income (year ended 31st December)

	2008			Average balance a	2007			2006		
	Average balance a £m	Interest £m	Average rate %		Average rate %	Average balance a £m	Average rate %	Interest £m	Average rate %	
Assets										
Loans and advances to banks b :										
in offices in the United Kingdom	38,913	1,453	3.7	29,431	1,074	3.6	18,401	647	3.5	
in offices outside the United Kingdom	14,379	419	2.9	12,262	779	6.4	12,278	488	4.0	
Loans and advances to customers b :										
in offices in the United Kingdom	249,081	13,714	5.5	205,707	13,027	6.3	184,392	11,247	6.1	
in offices outside the United Kingdom	116,284	9,208	7.9	88,212	6,733	7.6	77,615	4,931	6.4	
Lease receivables:										
in offices in the United Kingdom	4,827	281	5.8	4,822	283	5.9	5,266	300	5.7	
in offices outside the United Kingdom	6,543	752	11.5	5,861	691	11.8	6,162	595	9.7	
Financial investments:										
in offices in the United Kingdom	35,844	1,654	4.6	37,803	2,039	5.4	41,125	1,936	4.7	
in offices outside the United Kingdom	10,450	697	6.7	14,750	452	3.1	14,191	830	5.8	
Reverse repurchase agreements and cash collateral on securities borrowed:										
in offices in the United Kingdom	207,521	8,768	4.2	211,709	9,644	4.6	166,713	6,136	3.7	
in offices outside the United Kingdom	128,250	4,450	3.5	109,012	5,454	5.0	100,416	5,040	5.0	
Trading portfolio assets:										
in offices in the United Kingdom	107,626	4,948	4.6	120,691	5,926	4.9	106,148	4,166	3.9	
in offices outside the United Kingdom	128,287	5,577	4.3	57,535	3,489	6.1	61,370	2,608	4.2	
Total average interest earning assets	1,048,005	51,921	5.0	897,795	49,591	5.5	794,077	38,924	4.9	
Impairment allowances/provisions	(5,749)			(4,435)			(3,565)			
Non-interest earning assets	711,856			422,834			310,949			
Total average assets and interest income	1,754,112	51,921	3.0	1,316,194	49,591	3.8	1,101,461	38,924	3.5	
Percentage of total average interest earning assets in offices outside the United Kingdom	38.6%			32.0%			34.3%			
Total average interest earning assets related to:										
Interest income		51,921	5.0		49,591	5.5		38,924	4.9	
Interest expense		(38,181)	3.6		(37,892)	4.2		(30,385)	3.8	
		13,740	1.4		11,699	1.3		8,539	1.1	

Notes

a Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.

b Loans and advances to customers and banks include all doubtful lendings, including non-accrual lendings. Interest receivable on such lendings has been included to the extent to which either cash payments have been received or interest has been accrued in accordance with the income recognition policy of the Group.

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Average balance sheet

Average balance sheet and net interest income (year ended 31st December)

	2008			2007			2006		
	Average balance ^a £m	Interest £m	Average rate %	Average balance ^a £m	Interest £m	Average rate %	Average balance ^a £m	Interest £m	Average rate %
Liabilities and shareholders' equity									
Deposits by banks:									
in offices in the United Kingdom	70,272	2,780	4.0	63,902	2,511	3.9	62,236	2,464	4.0
in offices outside the United Kingdom	32,172	956	3.0	27,596	1,225	4.4	23,438	1,137	4.9
Customer accounts:									
demand deposits:									
in offices in the United Kingdom	24,333	910	3.7	29,110	858	2.9	25,397	680	2.7
in offices outside the United Kingdom	14,902	572	3.8	13,799	404	2.9	10,351	254	2.5
Customer accounts:									
savings deposits:									
in offices in the United Kingdom	71,062	2,143	3.0	55,064	2,048	3.7	57,734	1,691	2.9
in offices outside the United Kingdom	7,033	413	5.9	4,848	128	2.6	3,124	74	2.4
Customer accounts:									
other time deposits – retail:									
in offices in the United Kingdom	32,283	1,523	4.7	30,578	1,601	5.2	34,865	1,548	4.4
in offices outside the United Kingdom	20,055	1,350	6.7	12,425	724	5.8	8,946	482	5.4
Customer accounts:									
other time deposits – wholesale:									
in offices in the United Kingdom	60,574	2,362	3.9	52,147	2,482	4.8	45,930	1,794	3.9
in offices outside the United Kingdom	31,300	2,094	6.7	24,298	1,661	6.8	23,442	1,191	5.1
Debt securities in issue:									
in offices in the United Kingdom	41,014	1,920	4.7	41,552	2,053	4.9	47,216	1,850	3.9
in offices outside the United Kingdom	80,768	3,734	4.6	94,271	5,055	5.4	74,125	3,686	5.0
Dated and undated loan capital and other subordinated liabilities principally:									
in offices in the United Kingdom	22,912	1,435	6.3	12,972	763	5.9	13,686	777	5.7
Repurchase agreements and cash collateral on securities lent:									
in offices in the United Kingdom	203,967	8,445	4.1	169,272	7,616	4.5	141,862	5,080	3.6
in offices outside the United Kingdom	177,883	2,800	1.6	118,050	5,051	4.3	86,693	4,311	5.0
Trading portfolio liabilities:									
in offices in the United Kingdom	56,675	2,657	4.7	47,971	2,277	4.7	49,892	2,014	4.0
in offices outside the United Kingdom	62,239	2,087	3.4	29,838	1,435	4.8	39,064	1,352	3.5
Total average interest bearing liabilities	1,009,444	38,181	3.8	827,693	37,892	4.6	748,001	30,385	4.1
Interest free customer deposits:									
in offices in the United Kingdom	40,439			34,109			27,549		
in offices outside the United Kingdom	3,089			3,092			2,228		
Other non-interest bearing liabilities	664,458			421,473			297,816		
Minority and other interests and shareholders' equity	36,682			29,827			25,867		
Total average liabilities, shareholders' equity and interest expense	1,754,112	38,181	2.2	1,316,194	37,892	2.9	1,101,461	30,385	2.8
Percentage of total average interest bearing non-capital liabilities in offices outside the United Kingdom	42.2%			39.4%			36.1%		

Note

- a Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.

Changes in net interest income volume and rate analysis

The following tables allocate changes in net interest income between changes in volume and changes in interest rates for the last two years. Volume and rate variances have been calculated on the movement in the

average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Where variances have arisen from changes in both volumes and interest rates, these have been allocated proportionately between the two.

	2008/2007 Change due			2007/2006 Change due			2006/2005 Change due		
	to increase/ (decrease) in:			to increase/ (decrease) in:			to increase/ (decrease) in:		
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest receivable									
Loans and advances to banks:									
in offices in the UK	379	354	25	427	402	25	193	121	72
in offices outside the UK	(360)	117	(477)	291	(1)	292	85	46	39
	19	471	(452)	718	401	317	278	167	111
Loans and advances to customers:									
in offices in the UK	687	2,525	(1,838)	1,780	1,337	443	1,018	726	292
in offices outside the UK	2,475	2,214	261	1,802	728	1,074	1,956	1,695	261
	3,162	4,739	(1,577)	3,582	2,065	1,517	2,974	2,421	553
Lease receivables:									
in offices in the UK	(2)		(2)	(17)	(26)	9	(48)	(70)	22
in offices outside the UK	61	79	(18)	96	(30)	126	478	413	65
	59	79	(20)	79	(56)	135	430	343	87
Financial investments:									
in offices in the UK	(385)	(102)	(283)	103	(165)	268	181	(85)	266
in offices outside the UK	245	(163)	408	(378)	32	(410)	363	202	161
	(140)	(265)	125	(275)	(133)	(142)	544	117	427
Reverse repurchase agreements and cash collateral on securities borrowed:									
in offices in the UK	(876)	(188)	(688)	3,508	1,865	1,643	1,519	324	1,195
in offices outside the UK	(1,004)	855	(1,859)	414	430	(16)	2,316	254	2,062
	(1,880)	667	(2,547)	3,922	2,295	1,627	3,835	578	3,257
Trading portfolio assets:									
in offices in the UK	(978)	(616)	(362)	1,760	621	1,139	1,456	907	549
in offices outside the UK	2,088	3,303	(1,215)	881	(172)	1,053	492	151	341
	1,110	2,687	(1,577)	2,641	449	2,192	1,948	1,058	890
Total interest receivable:									
in offices in the UK	(1,175)	1,973	(3,148)	7,561	4,034	3,527	4,319	1,923	2,396
in offices outside the UK	3,505	6,405	(2,900)	3,106	987	2,119	5,690	2,761	2,929
	2,330	8,378	(6,048)	10,667	5,021	5,646	10,009	4,684	5,325

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Changes in net interest income volume and rate analysis

	2008/2007 Change due			2007/2006 Change due			2006/2005 Change due		
	to increase/			to increase/			to increase/		
	(decrease) in:			(decrease) in:			(decrease) in:		
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest payable									
Deposits by banks:									
in offices in the UK	269	252	17	47	66	(19)	799	247	552
in offices outside the UK	(269)	181	(450)	88	190	(102)	432	52	380
		433	(433)	135	256	(121)	1,231	299	932
Customer accounts demand deposits:									
in offices in the UK	52	(155)	207	178	105	73	170	68	102
in offices outside the UK	168	34	134	150	95	55	166	80	86
	220	(121)	341	328	200	128	336	148	188
Customer accounts savings deposits:									
in offices in the UK	95	527	(432)	357	(81)	438	121	152	(31)
in offices outside the UK	285	77	208	54	45	9	35	28	7
	380	604	(224)	411	(36)	447	156	180	(24)
Customer accounts other time deposits retail:									
in offices in the UK	(78)	86	(164)	53	(204)	257	78	41	37
in offices outside the UK	626	500	126	242	200	42	222	125	97
	548	586	(38)	295	(4)	299	300	166	134
Customer accounts other time deposits wholesale:									
in offices in the UK	(120)	367	(487)	688	263	425	603	129	474
in offices outside the UK	433	469	(36)	470	45	425	601	550	51
	313	836	(523)	1,158	308	850	1,204	679	525
Debt securities in issue:									
in offices in the UK	(133)	(26)	(107)	203	(240)	443	219	22	197
in offices outside the UK	(1,321)	(673)	(648)	1,369	1,063	306	1,991	850	1,141
	(1,454)	(699)	(755)	1,572	823	749	2,210	872	1,338
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	672	620	52	(14)	(41)	27	172	135	37
Repurchase agreements and cash collateral on securities lent:									
in offices in the UK	829	1,471	(642)	2,536	1,090	1,446	1,446	329	1,117
in offices outside the UK	(2,251)	1,840	(4,091)	740	1,402	(662)	1,932	200	1,732
	(1,422)	3,311	(4,733)	3,276	2,492	784	3,378	529	2,849
Trading portfolio liabilities:									
in offices in the UK	380	408	(28)	263	(80)	343	277	222	55
in offices outside the UK	652	1,189	(537)	83	(366)	449	156	85	71
	1,032	1,597	(565)	346	(446)	792	433	307	126
Total interest payable:									
in offices in the UK	1,966	3,550	(1,584)	4,311	878	3,433	3,885	1,345	2,540
in offices outside the UK	(1,677)	3,617	(5,294)	3,196	2,674	522	5,535	1,970	3,565
	289	7,167	(6,878)	7,507	3,552	3,955	9,420	3,315	6,105

Movement in net interest income

Increase/(decrease) in interest receivable	2,330	8,378	(6,048)	10,667	5,021	5,646	10,009	4,684	5,325
(Increase)/decrease in interest payable	(289)	(7,167)	6,878	(7,507)	(3,552)	(3,955)	(9,420)	(3,315)	(6,105)
	2,041	1,211	830	3,160	1,469	1,691	589	1,369	(780)

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Off-balance sheet arrangements

In the ordinary course of business and primarily to facilitate client transactions, the Group enters into transactions which may involve the use of off-balance sheet arrangements and special purpose entities (SPEs). These arrangements include the provision of guarantees, loan commitments, retained interests in assets which have been transferred to an unconsolidated SPE or obligations arising from the Group's involvements with such SPEs.

Guarantees

The Group issues guarantees on behalf of its customers. In the majority of cases, the Group will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, the Group issues guarantees on its own behalf. The main types of guarantees provided are: financial guarantees given to banks and financial institutions on behalf of customers to secure loans; overdrafts; and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of contingent liabilities with off-balance sheet risk is set out in Note 34 and in the table on page 33.

Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period or are cancellable by the Group subject to notice conditions. Information on loan commitments and similar facilities is set out in Note 34 and in the table on page 33.

Special purpose entities

Transactions entered into by the Group may involve the use of SPEs.

SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their on-going activities.

Transactions with SPEs take a number of forms, including:

The provision of financing to fund asset purchases, or commitments to provide finance for future purchases.

Derivative transactions to provide investors in the SPE with a specified exposure.

The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties.

Direct investment in the notes issued by SPEs.

Depending on the nature of the Group's resulting exposure, it may consolidate the SPE on to the Group's balance sheet. The consolidation of SPEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. In accordance with IFRS, SPEs are consolidated when the substance of the relationship between the Group and the entity indicates control. Potential indicators of control include, amongst others, an assessment of the Group's exposure to the risks and benefits of the SPE. The initial consolidation analysis is revisited at a later date if:

- (i) the Group acquires additional interests in the entity;
- (ii) the contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; or if
- (iii) the Group acquires control over the main operating and financial decisions of the entity.

A number of the Group's transactions have recourse only to the assets of unconsolidated SPEs. Typically, the majority of the exposure to these assets is borne by third parties and the Group's risk is mitigated through over-collateralisation, unwind features and other protective measures. The Group's involvement with unconsolidated third party conduits, collateralised debt obligations and structured investment vehicles is described further below.

Collateralised debt obligations (CDOs)

The Group has structured and underwritten CDOs. At inception, the Group's exposure principally takes the form of a liquidity facility provided to support future funding difficulties or cash shortfalls in the vehicles. If required by the vehicle, the facility is drawn with the amount advanced included within loans and advances in the balance sheet. Upon an event of default or other triggering event, the Group may acquire control of a CDO and, therefore, be required to fully consolidate the vehicle for accounting purposes. The potential for transactions to hit default triggers before the end of 2009 has been assessed and is included in the determination of £1,763m impairment charges and other credit provisions in relation to ABS CDO Super Senior and other credit market exposures for the year ended 31st December 2008.

The Group's exposure to ABS CDO Super Senior positions before hedging was £3,104m as at 31st December 2008. This represents the Group's exposure to High Grade CDOs, stated net of write-downs and charges. These facilities are fully drawn and included within loans and advances on the balance sheet. The undrawn mezzanine facilities that were in place as at 31st December 2007 relate to CDOs that have been consolidated during the period.

Collateral

The collateral underlying unconsolidated CDOs comprised 78% residential mortgage backed securities, 3% non-residential asset backed securities and 19% in other categories (a proportion of which will be backed by residential mortgage collateral).

The remaining Weighted Average Life (WAL) of all collateral is 5.1 years. The combined Net Asset Value (NAV) for all of the CDOs was £2.2bn below the nominal amount, equivalent to an aggregate 41.3% decline in value on average for all investors.

Funding

The CDOs were funded with senior unrated notes and rated notes up to AAA. The capital structure senior to the AAA notes on cash CDOs was supported by a liquidity facility provided by the Group. The senior portion covered by liquidity facilities is on average 85% of the capital structure.

The initial WAL of the notes in issue averaged 6.7 years. The full contractual maturity is 38 years.

Interests in third party CDOs

The Group has purchased securities in and entered into derivative instruments with third party CDOs. These interests are held as trading assets or liabilities on the Group's balance sheet and measured at fair value. The Group has not provided liquidity facilities or similar agreements to third party CDOs.

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Additional financial disclosure

Off-balance sheet arrangements

Structured investment vehicles (SIVs)

The Group has not structured or managed SIVs. Group exposure to third party SIVs comprised:

£41m of senior liquidity facilities.

Derivative exposures included on the balance sheet at their net fair value of £273m.

Bonds issued by the SIVs included within trading portfolio assets at their fair value of £11m.

SIV-Lites

The Group has exposure to two SIV-Lite transactions. The Group is not involved in their ongoing management. Exposures have increased by £531m relating to a SIV-Lite which had previously been hedged with Lehman Brothers. Following the Lehman Brothers bankruptcy this facility was reflected as a new exposure to the underlying assets. The other SIV-Lite of £107m represents drawn liquidity facilities supporting a CP programme.

During 2008 exposure to a third SIV-Lite through bond holdings was written down to zero.

Commercial paper and medium-term note conduits

The Group provided £22bn in undrawn backstop liquidity facilities to its own sponsored CP conduits. The Group fully consolidates these entities such that the underlying assets are reflected on the Group balance sheet.

These consolidated entities in turn provide facilities of £899m to third party conduits containing prime UK buy-to-let RMBS. As at 31st December 2008, the entire facility had been drawn and is included in available for sale financial investments.

The Group provided backstop facilities to support the paper issued by four third party conduits. These facilities totalled £866m, with underlying collateral comprising 100% auto loans. Drawings on these facilities were £25m as at 31st December 2008 and are included within loans and advances to customers.

The Group provided backstop facilities to six third party SPEs that fund themselves with medium-term notes. These notes are sold to investors as a series of 12 month securities and remarketed to investors annually. If investors decline to renew their holdings at a price below a pre-agreed spread, the backstop facility requires the Group to purchase the outstanding notes at scheduled maturity. The Group has provided facilities of £2.6bn to SPEs holding prime UK and Australian owner-occupied Residential Mortgage Back Securities (RMBS) assets. As at the balance sheet date these facilities had been drawn and were included in loans and advances.

Asset securitisations

The Group has assisted companies with the formation of asset securitisations, some of which are effected through the use of SPEs. These entities have minimal equity and rely on funding in the form of notes to purchase the assets for securitisation. As these SPEs are created for other companies, the Group does not usually control these entities and therefore does not consolidate them. The Group may provide financing in the form of senior notes or junior notes and may also provide derivatives to the SPE. These transactions are included on the balance sheet.

The Group has used SPEs to securitise part of its originated and purchased retail and commercial lending portfolios and credit card receivables. These SPEs are usually consolidated and de-recognition only occurs when the Group transfers its contractual right to receive cash flows from the

financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. The carrying amount of securitised assets together with the associated liabilities are set out in Note 29.

Client intermediation

The Group has structured transactions as a financial intermediary to meet investor and client needs. These transactions involve entities structured by either the Group or the client and they are used to modify cash flows of third party assets to create investments with specific risk or return profiles or to assist clients in the efficient management of other risks. Such transactions will typically result in a derivative being shown on the balance sheet, representing the Group's exposure to the relevant asset.

The Group also invests in lessor entities specifically to acquire assets for leasing. Client intermediation also includes arrangements to fund the purchase or construction of specific assets (most common in the property industry).

Fund management

The Group provides asset management services to a large number of investment entities on an arm's length basis and at market terms and prices. The majority of these entities are investment funds that are owned by a large and diversified number of investors. These funds are not consolidated because the Group does not own either a significant portion of the equity or the risks and rewards inherent in the assets.

During 2008, Group operating expenses included charges of £263m related to selective support of liquidity products managed by Barclays Global Investors and not consolidated by the Group. The Group have not provided any additional selective support subsequent to 31st December 2008.

Financial review

Additional financial disclosure

Critical accounting estimates

The Group's accounting policies are set out on pages 193 to 203. Certain of these policies, as well as estimates made by management, are considered to be important to an understanding of the Group's financial condition since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. The following accounting policies include estimates which are particularly sensitive in terms of judgements and the extent to which estimates are used. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has discussed the accounting policies and critical accounting estimates with the Board Audit Committee.

Fair value of financial instruments

Some of the Group's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

Other non-derivative financial assets may be designated as available for sale. Available for sale financial investments are initially recognised at fair value and are subsequently held at fair value. Gains and losses arising from changes in fair value of such assets are included as a separate component of equity. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where a valuation model is used to determine fair value, it makes maximum use of market inputs. Financial instruments with a fair value based on observable inputs include valuations determined by unadjusted quoted prices in an active market and market standard pricing models that use observable inputs.

Financial instruments whose fair value is determined, at least in part, using unobservable inputs are further categorised into Vanilla and Exotic products as follows:

Vanilla products are valued using simple models such as discounted cash flow or Black Scholes models however, some of the inputs are not observable.

Exotic products are over-the-counter products that are relatively bespoke, not commonly traded in the markets, and their valuation comes from sophisticated mathematical models where some of the inputs are not observable. An analysis of financial instruments carried at fair value by valuation technique, including the extent of valuations based on unobservable inputs, together with a sensitivity analysis of valuations using unobservable inputs is included in Note 50.

Allowances for loan impairment and other credit risk provisions

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios as at the balance sheet date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the consolidated income statement as part of the impairment charge. Provision is made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to

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use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these portfolios is £2,333m (2007: £1,605m) and amounts to 51% (2007: 70%) of the total impairment charge on loans and advances in 2008.

For larger accounts, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective

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Critical accounting estimates

judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment charge reflected in the financial statements in relation to larger accounts is £2,251m (2007: £701m) or 49% (2007: 30%) of the total impairment charge on loans and advances in 2007. Further information on impairment allowances is set out in Note 47 on page 264.

Goodwill

Management have to consider at least annually whether the current carrying value of goodwill is impaired. The first step of the impairment review process requires the identification of independent cash generating units, by dividing the Group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the unit, including the allocated goodwill, is compared to its fair value to determine whether any impairment exists. If the fair value of a unit is less than its carrying value, goodwill will be impaired. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competitive activity, regulatory change). In the absence of readily available market price data this calculation is based

upon discounting expected pre-tax cash flows at a risk adjusted interest rate appropriate to the operating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows naturally reflect management's view of future performance. The most significant amounts of goodwill relate to UK Retail Banking, GRCB Absa and Barclays Global Investors, where goodwill impairment testing performed in 2008 indicated that this goodwill was not impaired. Goodwill impairment of £111m relating to FirstPlus and EquiFirst was recognised in 2008 (2007: nil). An analysis of goodwill by cluster, together with key assumptions underlying the impairment testing, is included in Note 21 on page 222.

Intangible assets

Intangible assets that derive their value from contractual customer relationships or that can be separated and sold and have a finite useful life are amortised over their estimated useful life. Determining the estimated useful life of these finite life intangible assets requires an analysis of circumstances, and judgement by the Bank's management. At each balance sheet date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length

transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The most significant amounts of intangible assets relate to the GRCB Absa and Lehman Brothers North American businesses.

Retirement benefit obligations

The Group provides pension plans for employees in most parts of the world. Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs. For defined contribution schemes, the pension cost recognised in the profit and loss account represents the contributions payable to the scheme. For defined benefit schemes, actuarial valuation of each of the scheme's obligations using the projected unit credit method and the fair valuation of each of the scheme's assets are performed annually in accordance with the requirements of IAS 19.

The actuarial valuation is dependent upon a series of assumptions, the key ones being interest rates, mortality, investment returns and inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Group's own experience. The returns on fixed interest investments are set to market yields at the valuation date (less an allowance for risk) to ensure consistency with the asset valuation. The returns on UK and overseas equities are based on the long-term outlook for global equities at the calculation date having regard to current market yields and dividend growth expectations. The inflation assumption reflects long-term expectations of both earnings and retail price inflation.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, adjusted for any historic unrecognised actuarial gains or losses and past service cost, is recognised as a liability in the balance sheet. An asset arising, for example, as a result of past over-funding or the performance of the plan investments, is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions. To the extent that any unrecognised gains or losses at the start of the measurement year in relation to any individual defined benefit scheme exceed 10% of the greater of the fair value of the scheme assets and the defined benefit obligation for that scheme, a proportion of the excess is recognised in the income statement.

The Group's IAS 19 pension deficit across all schemes as at 31st December 2008 was £1,287m (2007: surplus of £393m). There are net recognised liabilities of £1,292m (2007: £1,501m) and unrecognised actuarial gains of £5m (2007: £1,894m). The net recognised liabilities comprised retirement benefit liabilities of £1,357m (2007: £1,537m) and assets of £65m (2007: £36m).

The Group's IAS 19 pension deficit in respect of the main UK scheme as at 31st December 2008 was £858m (2007: surplus of £668m). Among the reasons for this change were the large loss in value of the assets over the year, and to a lesser extent the strengthening of the allowance made for future improvement in mortality. Offsetting these were the increase in the AA long-term corporate bond yields which resulted in a higher discount rate of 6.75% (2007: 5.82%), a decrease in the inflation assumption to 3.16% (2007: 3.45%) and contributions paid. Further information on retirement benefit obligations, including assumptions, is set out in Note 30 to the accounts on page 234.

Analysis of results by business

Global Retail and Commercial Banking

UK Retail Banking profit before tax grew 7% to £1,369m. Income grew 4% to £4,482m, reflecting strong growth in Home Finance and minimal settlements on overdraft fees. Loans and advances grew 15% driven by a market share of net new mortgage lending of 36%. Operating expenses showed a modest increase of 2% reflecting active management of the cost base and reduced gains from the sale of property. The cost:income ratio improved one percentage point. Impairment charges increased 8% reflecting strong growth in assets and a deteriorating economic environment.

Barclays Commercial Bank profit before tax decreased 7% to £1,266m. Income growth of 7% principally reflected increased sales of treasury products. Loans and advances to customers increased 14% to £80.5bn. Costs increased 14% driven by lower gains on the sale of property, further investment in new payments capability, and growth in the operating lease business. Impairment charges increased 42% as the deteriorating economic environment caused higher delinquency and lower recovery rates on corporate credit.

Barclaycard profit before tax increased 31% to £789m, including £260m from Barclaycard International. Income growth of 27% reflected strong growth in Barclaycard International, the income related to Goldfish since acquisition, and gains relating to the Visa IPO and the sale of MasterCard shares. Costs increased 30% reflecting continued international growth, increased marketing expenditure and the impact of Goldfish. Impairment charges increased 33% reflecting growth in charges in the international businesses and the acquisition of Goldfish, partly offset by lower impairment in the other UK businesses.

GRCB Western Europe profit before tax grew 31% to £257m. Income grew 53%, driven by very strong growth in deposits, mortgages

and commercial lending across the expanded franchise, as well as gains of £82m relating to the Visa IPO and the sale of MasterCard shares. Costs increased 38% reflecting the expansion of the network by 347 distribution points to 1,145 and continued strategic investment in the Premier and core retail businesses. Impairment charges increased £220m to £296m, largely driven by deteriorating trends in Spain which led to losses in property-related commercial banking exposures and credit cards.

GRCB Emerging Markets profit before tax increased 34% to £134m. Income increased 91%, driven by retail expansion in India, entry into new markets in Russia and Pakistan and strong performances in Africa, as well as gains of £82m relating to the Visa IPO and sale of MasterCard shares. Operating expense growth of 82% reflected continued investment in business infrastructure, distribution and new markets. Distribution points increased 286 to 836. Impairment charges increased £127m to £166m reflecting asset growth, and increased wholesale impairment in Africa.

GRCB Absa profit before tax decreased 8% to £552m. Income growth of 10% was driven by higher fees and commissions, balance sheet growth as well as a gain relating to the Visa IPO. Operating expenses increased 3%, well below the rate of inflation, reflecting investment in new distribution points, which increased 176 to 1,177, offset by good cost control. This led to a four percentage point improvement in the cost:income ratio to 59%. Impairment charges rose £201m to £347m, mainly due to prolonged high interest rates and inflation rates and increased customer indebtedness resulting in higher delinquency levels in the retail portfolios.

Analysis of results by business

For the year ended 31st December 2008

UK Retail Banking	Barclays Commercial Bank	Barclaycard £m	GRCB Western Europe £m	GRCB Emerging Markets £m	GRCB Absa £m
£m					

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	£m					
Net interest income	2,996	1,757	1,786	856	616	1,104
Net fee and commission income	1,299	861	1,299	383	223	762
Principal transactions		22	82	165	169	111
Net premiums from insurance contracts	205		44	352		234
Other income	17	105	19	39	11	113
Total income	4,517	2,745	3,230	1,795	1,019	2,324
Net claims and benefits incurred on insurance contracts	(35)		(11)	(365)		(126)
Total income, net of insurance claims	4,482	2,745	3,219	1,430	1,019	2,198
Impairment charges and other credit provisions	(602)	(414)	(1,097)	(296)	(166)	(347)
Net income	3,880	2,331	2,122	1,134	853	1,851
Operating expenses	(2,519)	(1,063)	(1,422)	(929)	(719)	(1,305)
Share of post-tax results of associates and joint ventures	8	(2)	(3)			5
Profit on disposal of subsidiaries						1
Gains on acquisitions			92	52		
Profit before tax	1,369	1,266	789	257	134	552
As at 31st December 2008						
Total assets	101,384	84,029	30,925	64,732	14,653	40,391
Total liabilities	104,640	64,997	3,004	37,250	10,517	20,720

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Investment Banking and Investment Management

Barclays Capital profit before tax was £1,302m in a very challenging market, down 44%, and included a gain on the acquisition of Lehman Brothers North American businesses of £2,262m. Net income of £2,808m was down 55% as the impact of market dislocation continued and included gross losses of £8,053m, partially offset by related income and hedges of £1,433m and gains of £1,663m from the general widening of credit spreads on structured notes issued by Barclays Capital. There were record performances in interest rate products, currency products, emerging markets, prime services and commodities. Equities, credit products, mortgages and asset backed securities and private equity were significantly impacted by market dislocation and recorded lower income than in 2007. Operating expenses, after absorbing Lehman Brothers North American businesses, were 5% lower than in 2007 due to lower performance related pay.

Barclays Global Investors profit before tax decreased 19% to £595m. Income fell 4% to £1,844m due to lower incentive fees. Operating expenses increased 5% and included charges of £263m (2007: £80m) related to selective support of liquidity products. Total assets under management were US\$1,495bn, reflecting net new assets of US\$99bn, negative market moves of US\$553bn and adverse exchange rate movements of US\$130bn.

Barclays Wealth profit before tax grew 119% to £671m, including a £326m profit on disposal of the closed life business, which contributed profit before tax of £104m before disposal. Income growth of 3% to £1,324m reflected strong growth in customer deposits and lending, partially offset by the impact of lower equity markets on fee income. Operating expenses decreased 4% reflecting strong cost control. Total client assets increased 10% (£12.6bn) to £145.1bn, with net new asset inflows and the acquisition of Lehman Brothers North American businesses offsetting the impact of negative market movements and the sale of the closed life business.

Analysis of results by business

For the year ended 31st December 2008

	Barclays Capital	Barclays Global Investors	Barclays Wealth
	£m	£m	£m
Net interest income	1,724	(38)	486
Net fee and commission income	1,429	1,917	720
Principal transactions	2,065	(43)	(344)
Net premiums from insurance contracts			136
Other income	13	8	26
Total income	5,231	1,844	1,024
Net claims and benefits incurred on insurance contracts			300
Total income, net of insurance claims	5,231	1,844	1,324
Impairment charges and other credit provisions	(2,423)		(44)
Net income	2,808	1,844	1,280
Operating expenses	(3,774)	(1,249)	(935)
Share of post-tax results of associates and joint ventures	6		
Profit on disposal of subsidiaries			326
Gain on acquisition	2,262		
Profit before tax	1,302	595	671
As at 31st December 2008			
Total assets	1,629,117	71,340	13,263
Total liabilities	1,603,093	68,372	45,846

Analysis of results by business

Global Retail and Commercial Banking

UK Retail Banking

UK Retail Banking comprises Personal Customers, Home Finance, Local Business, Consumer Lending and Barclays Financial Planning. We have one of the largest branch networks in the UK with around 1,700 branches and an extensive network of cash machines.

What we do

We are transforming Barclays to be the best bank in the UK by designing innovative, simple and transparent propositions, streamlining operating platforms and further leveraging Barclays Group capabilities.

Our cluster of businesses aims to build broader and deeper relationships with customers. Personal Customers and Home Finance provide a wide range of products and services to retail customers, including current accounts, savings and investment products, mortgages branded Woolwich and general insurance. Barclays Financial Planning provides banking, investment products and advice to affluent customers.

Local Business provides banking services to small businesses. UK Retail Banking is also a gateway to more specialised services from other parts of Barclays such as Barclays Stockbrokers.

Our business serves 15.2 million UK customers.

Performance

2008/07

UK Retail Banking profit before tax increased 7% (£94m) to £1,369m (2007: £1,275m) through solid income growth and continued good control of impairment and costs. The launch of new products and propositions supported a significant increase in customer accounts, with Current Accounts increasing 4% (0.4m) to 11.7m (2007: 11.3m), Savings

Accounts increasing 8% (0.9m) to 12.0m (2007: 11.1m) and Mortgage Accounts increasing 8% (62,000) to 816,000 (2007: 754,000).

Income grew 4% (£185m) to £4,482m (2007: £4,297m) reflecting strong growth in Home Finance and solid growth in Consumer Lending and Local Business, partially offset by reduced income from Personal Customer Savings Accounts due to the impact of the reductions in the UK base rates in the second half of 2008.

Net interest income increased 5% (£138m) to £2,996m (2007: £2,858m) driven by strong growth in loans and advances. Total average customer deposit balances increased 5% to £85.9bn (2007: £81.8bn), reflecting solid growth in Personal Customer and Local Business balances. The average liabilities margin declined to 2.01% (2007: 2.15%) reflecting the reductions in UK base rates in the second half of 2008.

Mortgage balances grew 18%, driven by increased share of new lending and higher levels of balance retention. Mortgage balances were £82.3bn at the end of the period (31st December 2007: £69.8bn), a market share of 7% (2007: 6%). Gross advances were stable at £22.9bn, with redemptions of £10.4bn (2007: £15.0bn). Net new lending was £12.5bn (2007: £8.0bn), a market share^b of 36% (2007: 8%). The average loan to value ratio of the mortgage book (including buy-to-let) on a current valuation basis was 40% (2007: 34%). The average loan to value ratio of new mortgage lending was 47% (2007: 49%). The assets margin increased to 1.25% (2007: 1.20%) reflecting increased returns from mortgages.

Net fee and commission income increased 10% (£116m) to £1,299m (2007: £1,183m) reflecting £116m settlements on overdraft fees in 2007. Excluding this, net fees and commissions were stable.

Impairment charges increased 8% (£43m) to £602m (2007: £559m), reflecting growth in customer assets of 15% and the impact of the current economic environment. Mortgage impairment charges were £24m (2007: release of £3m). Impairment charges within Consumer Lending increased 3%.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Personal Customers			
Number of UK current accounts ^a	11.7m	11.3m	11.5m
Number of UK savings accounts	12.0m	11.1m	11.0m
Total UK mortgage balances	£ 82.3bn	£ 69.8bn	£ 61.7bn
Local Business			
Number of Local Business customers	660,000	643,000	630,000

Notes

- a Decrease in 2007 reflects the consolidation of Woolwich and Barclays current accounts.
- b Excludes Housing Associations.

Operating expenses increased 2% (£49m) to £2,519m (2007: £2,470m) reflecting reduced gains from the sale of property of £75m (2007: £193m). Continued strong and active management of expense lines, including back-office consolidation and process efficiencies, funded increased investment in product development and distribution channels.

The cost:income ratio improved one percentage point to 56% (2007: 57%).

2007/06

UK Retail Banking profit before tax increased 8% (£94m) to £1,275m (2006: £1,181m) due to reduced costs and a strong improvement in impairment.

Income grew 2% (£67m) before the impact of settlements on overdraft fees in relation to prior years (£116m). This was driven by very strong growth in Personal Customer retail savings and good growth in Personal Customer current accounts, Home Finance and Local Business. Including the impact of settlements on overdraft fees, income decreased £49m to £4,297m (2006: £4,346m).

Net interest income increased 3% (£93m) to £2,858m (2006: £2,765m). Growth was driven by a higher contribution from deposits, through a combination of good balance sheet growth and an increased liability margin. Total average customer deposit balances increased 7% to £81.9bn (2006: £76.5bn), supported by the launch of new products.

Mortgage volumes increased significantly, driven by an improved mix of longer term value products for customers, higher levels of retention and continuing improvements in processing capability. Mortgage balances were £69.8bn at the end of the period (2006: £61.7bn), an approximate market share of 6% (2006: 6%). Gross advances were 25% higher at £23.0bn (2006: £18.4bn). Net lending was £8.0bn (2006: £2.4bn), representing market share of 8% (2006: 2%). The average loan to value

ratio of the residential mortgage book on a current valuation basis was 33%. The average loan to value ratio of new residential mortgage lending in 2007 was 54%. Consumer Lending balances decreased 4% to £7.9bn (2006: £8.2bn), reflecting the impact of tighter lending criteria.

Overall asset margins decreased as a result of the increased proportion of mortgages and contraction in unsecured loans.

Net fee and commission income reduced 4% (£49m) to £1,183m (2006: £1,232m). There was strong Current Account income growth in Personal Customers and good growth within Local Business. This was more than offset by settlements on overdraft fees.

Net premiums from insurance underwriting activities reduced 26% (£90m) to £252m (2006: £342m), as there continued to be lower customer take-up of loan protection insurance. Net claims and benefits on insurance contracts increased to £43m (2006: £35m).

Impairment charges decreased 12% (£76m) to £559m (2006: £635m) reflecting lower charges in unsecured Consumer Lending and Local Business. This was driven by improvements in the collection process which led to reduced flows into delinquency, lower levels of arrears and stable charge-offs. Mortgage impairment charges remained negligible.

Operating expenses reduced 2% (£62m) to £2,470m (2006: £2,532m), reflecting strong and active management of all expense lines, targeted processing improvements and back-office consolidation. Gains from the sale of property were £193m (2006: £253m). Increased investment was focused on improving the overall customer experience through converting and improving the branch network; revitalising the product offering; increasing operational and process efficiency; and meeting regulatory requirements.

The cost:income ratio improved one percentage point to 57%. Excluding the impact of settlements on overdraft fees, the cost:income ratio improved two percentage points to 56%.

UK Retail Banking

2008

2007

2006

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	£m	£m	£m
Income statement information			
Net interest income	2,996	2,858	2,765
Net fee and commission income	1,299	1,183	1,232
Net premiums from insurance contracts	205	252	342
Other income	17	47	42
Total income	4,517	4,340	4,381
Net claims and benefits on insurance contracts	(35)	(43)	(35)
Total income net of insurance claims	4,482	4,297	4,346
Impairment charges	(602)	(559)	(635)
Net income	3,880	3,738	3,711
Operating expenses excluding amortisation of intangible assets	(2,499)	(2,461)	(2,531)
Amortisation of intangible assets	(20)	(9)	(1)
Operating expenses	(2,519)	(2,470)	(2,532)
Share of post-tax results of associates and joint ventures	8	7	2
Profit before tax	1,369	1,275	1,181
Balance sheet information			
Loans and advances to customers	£ 94.4bn	£ 82.0bn	£ 74.7bn
Customer accounts	£ 89.6bn	£ 87.1bn	£ 82.3bn
Total assets	£ 101.4bn	£ 88.5bn	£ 81.7bn
Performance ratios			
Return on average economic capital	27%	28%	28%
Cost:income ratio	56%	57%	58%
Cost:net income ratio	65%	66%	68%
Other financial measures			
Risk tendency	£ 520m	£ 470m	£ 500m
Economic profit	£ 633m	£ 617m	£ 590m
Risk weighted assets ^a	£ 30.5bn	£ 31.5bn	£ 43.0bn
Note			

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Analysis of results by business

Global Retail and Commercial Banking

Barclays Commercial Bank

Barclays Commercial Bank is one of the UK's leading providers of banking solutions to business customers and clients with an annual turnover of more than £1m.

What we do

Barclays Commercial Bank provides banking services to more than 81,000 customers in the UK via a network of relationship, regional, industry-sector and product specialists.

Working closely with our clients to understand their needs, we deliver financing, risk management, trade and cash management solutions constructed from a comprehensive suite of products, expertise and services. This includes specialist asset financing and leasing facilities.

Performance

2008/07

Barclays Commercial Bank profit before tax decreased 7% (£91m) to £1,266m (2007: £1,357m) reflecting a resilient performance in challenging market conditions. The impact of growth in net fee and commission income and continued strong growth in customer lending was offset by increased impairment charges and higher operating expenses.

Income increased 7% (£181m) to £2,745m (2007: £2,564m).

Net interest income improved 1% (£10m) to £1,757m (2007: £1,747m). There was strong growth in average customer assets, particularly term loans, which increased 14% to £61.7bn (2007: £53.9bn) reflecting the continued commitment to lend to viable businesses. The assets margin decreased 25 basis points to 1.55% (2007: 1.80%) due, in part, to a continued focus on lower risk term lending. Average customer accounts grew 3% to £47.6bn (2007: £46.4bn), and the deposit margin declined slightly to 1.47% (2007: 1.49%) partly reflecting the reductions in UK base rates in the second half of 2008.

Non-interest income increased to 36% of total income (2007: 32%) partly reflecting continued focus on cross sales and efficient balance sheet utilisation. Net fee and commission income increased 15% (£111m) to £861m (2007: £750m) due to increased income from foreign exchange, derivative sales and debt fee income.

Income from principal transactions fell to £22m (2007: £56m) due to lower equity realisations.

Other income of £105m (2007: £11m) included a £39m gain arising from the restructuring of Barclays interest in a third party finance operation. This gain was offset by a broadly similar tax charge. Other income also included £29m (2007: £7m) rental income from operating leases.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of customers	81,200	83,800	77,100
Number of colleagues	9,800	9,200	8,100

Impairment charges increased 42% (£122m) to £414m (2007: £292m) primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated. Impairment as a percentage of period-end loans and advances to customers and banks increased to 0.60% (2007: 0.45%).

Operating expenses increased 14% (£134m) to £1,063m (2007: £929m) reflecting lower gains on the sale of property of £10m (2007: £40m), investment in a new payments capability (2008: £69m, 2007: £42m), growth in the operating lease business (2008: £31m, 2007: £7m) and investment in risk and operations infrastructure, sales force capability and product specialists.

2007/06

Barclays Commercial Bank profit before tax decreased £5m to £1,357m (2006: £1,362m) due to continued good income growth partially offset by lower gains from business disposals. Profit before business disposals increased 4% to £1,343m (2006: £1,286m).

Income increased 7% (£160m) to £2,564m (2006: £2,404m). Non-interest income increased to 32% of total income (2006: 29%), reflecting continuing focus on cross sales and efficient balance sheet utilisation. There was very strong growth in net fee and commission income, which increased 17% (£107m) to £750m (2006: £643m) due to very strong performance in lending fees. There was also good growth in transaction

related income, foreign exchange and derivatives transactions undertaken on behalf of clients.

Net interest income improved 2% (£37m) to £1,747m (2006: £1,710m). Average customer lendings increased 3% to £53.9bn (2006: £52.3bn) and 5%, excluding the impact of the vehicle leasing and European vendor finance businesses sold in 2006. Average customer accounts grew 4% to £46.4bn (2006: £44.8bn). The asset margin decreased by 12 basis points to 1.80%, reflecting an increased focus on higher quality lending and competitive market conditions. The liabilities margin remained broadly stable at 1.49%.

Income from principal transactions primarily reflecting venture capital and other equity realisations increased 87% (£26m) to £56m (2006: £30m).

Impairment charges increased 15% (£39m) to £292m (2006: £253m), mainly due to a higher level of impairment losses in Larger Business as impairment trended towards risk tendency. There was a reduction in impairment levels in Medium Business due to a tightening of the lending criteria.

Operating expenses increased 7% (£61m) to £929m (2006: £868m). Operating expenses are net of gains of £39m (2006: £60m) on the sale of property. Growth in operating expenses was focused on continuing investment in operations, infrastructure, and new initiatives in product development and sales capability.

Barclays Commercial Bank

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	1,757	1,747	1,710
Net fee and commission income	861	750	643
Net trading income	3	9	2

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Net investment income	19	47	28
Principal transactions	22	56	30
Other income	105	11	21
Total income	2,745	2,564	2,404
Impairment charges and other credit provisions	(414)	(292)	(253)
Net income	2,331	2,272	2,151
Operating expenses excluding amortisation of intangible assets	(1,048)	(924)	(867)
Amortisation of intangible assets	(15)	(5)	(1)
Operating expenses	(1,063)	(929)	(868)
Share of post-tax results of associates and joint ventures	(2)		3
Profit on disposal of subsidiaries, associates and joint ventures		14	76
Profit before tax	1,266	1,357	1,362
Balance sheet information			
Loans and advances to customers	£ 67.5bn	£ 63.7bn	£ 56.6bn
Loans and advances to customers including those designated at fair value	£ 80.5bn	£ 70.7bn	£ 62.1bn
Customer accounts	£ 60.6bn	£ 60.8bn	£ 57.4bn
Total assets	£ 84.0bn	£ 74.6bn	£ 66.2bn
Performance ratios			
Return on average economic capital	26%	30%	36%
Cost:income ratio	39%	36%	36%
Cost:net income ratio	46%	41%	40%
Other financial measures			
Risk Tendency	£ 400m	£ 305m	£ 300m
Economic profit	£ 544m	£ 635m	£ 729m
Risk weighted assets ^a	£ 63.1bn	£ 57.0bn	£ 50.3bn
Note			

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Financial review

Analysis of results by business

Global Retail and Commercial Banking

Barclaycard

Barclaycard is a multi-brand international credit card, consumer lending and payment processing business. Our credit card was the first to be launched in the UK in 1966 and is now one of the leading credit card businesses in Europe, with a fast growing business in the United States and South Africa.

What we do

In the UK our activities include all Barclaycard branded credit cards, secured lending business and Barclays Partner Finance, our retail finance business. In addition to these activities, Barclaycard also operates partnership cards with leading brands such as SkyCard. We continue to lead the UK market and we strengthened our position in 2008 with the purchase of the Goldfish portfolio, adding more than 1m customers to our growing customer base.

Barclaycard's international presence continues to grow very strongly, with international customers now almost equalling the number in the UK. We currently operate in Germany, South Africa and the United States, where we are one of the fastest-growing credit card businesses. In Scandinavia, we operate through Entercard, a joint venture with Swedbank.

Our payment processing business, Barclaycard Business, processes card payments for 89,000 retailers and merchants, and issues credit and charge cards to corporate customers and the UK Government. It is Europe's number one issuer of Visa Commercial Cards with over 132,000 corporate customers.

Performance

2008/07

Barclaycard profit before tax increased 31% (£186m) to £789m (2007: £603m), driven by strong international income growth and lower UK impairment charges. 2008 profit included £40m from the acquisition of, and contribution from, Goldfish, Discover's UK credit card business, acquired on 31st March 2008. The scale of the UK and international businesses increased substantially with total customer numbers up 31% to 23.3m.

Income increased 27% (£689m) to £3,219m (2007: £2,530m), reflecting strong growth in Barclaycard International and £156m from the inclusion of Goldfish, partially offset by a decline in FirstPlus following its closure to new business.

Net interest income increased 30% (£412m) to £1,786m (2007: £1,374m), driven by 58% growth in international average extended credit card balances to £5.2bn. The margin increased to 6.92% (2007: 6.51%), due to a change in the product mix with an increased weighting to card lending, following the decision to stop writing new business in FirstPlus.

Net fee and commission income increased 14% (£156m) to £1,299m (2007: £1,143m), driven by growth in Barclaycard International.

Investment income increased £69m to £80m (2007: £11m), reflecting a £64m gain from the Visa IPO and a £16m gain from the sale of shares in MasterCard.

Other income increased £44m to £19m (2007: £25m loss), reflecting a gain from a portfolio sale in the United States. 2007 results reflected a £27m loss on disposal of part of the Monument card portfolio.

Impairment charges increased 33% (£270m) to £1,097m (2007: £827m), reflecting £252m growth in charges in the international businesses and £68m from the inclusion of Goldfish. These factors were partially offset by £50m lower impairment in the other UK businesses with reduced flows into delinquency and lower levels of arrears.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of Barclaycard UK customers	11.7m	10.1m	9.8m
UK credit cards average outstanding balances	£ 9.9bn	£ 8.4bn	£ 9.4bn
UK credit cards average extended credit balances	£ 8.0bn	£ 6.9bn	£ 8.0bn
Number of Barclaycard International customers	11.6m	7.7m	6.0m
International average outstanding balance	£ 6.5bn	£ 4.1bn	£ 3.1bn
International average extended credit balances	£ 5.2bn	£ 3.3bn	£ 2.5bn
Secured lending average outstanding balance	£ 4.7bn	£ 4.3bn	£ 3.4bn
Number of retailer relationships	89,000	93,000	93,000

Operating expenses increased 30% (£329m) to £1,422m (2007: £1,093m), reflecting continued international growth and increased marketing investment. Operating expenses reflected Goldfish expenses of £140m, including restructuring costs of £64m.

The acquisition of Goldfish resulted in a gain on acquisition of £92m.

Barclaycard International maintained its strong growth momentum, delivering a 71% (£108m) increase in profit before tax to £260m (2007: £152m). Barclaycard US profit before tax was US\$249m which exceeded delivery of the financial plan of US\$150m set out at the time of acquisition. Strong balance sheet growth in Barclaycard US included US\$1.9bn of credit card receivables acquired from FIA Card Services in August 2008, furthering the existing partnership agreement with US Airways. The acquisition of a majority stake in Woolworths Financial Services in October 2008, added 1.6 million customers to the existing Absa credit card business in South Africa. The Entercard joint venture with Swedbank continued to build presence in Norway, Sweden and Denmark.

2007/06

Barclaycard profit before tax increased 16% (£81m) to £603m (2006: £522m), driven by strong international growth coupled with a significant improvement in UK impairment charges. Other income included a £27m loss on disposal of part of the Monument card portfolio. 2006 results reflected a property gain of £38m.

Income decreased 2% (£46m) to £2,530m (2006: £2,576m), reflecting strong growth in Barclaycard International, offset by a decline in UK Cards revenue resulting from a more cautious approach to lending in the UK and a £27m loss on disposal of part of the Monument card portfolio.

Net interest income increased 1% (£11m) to £1,374m (2006: £1,363m), due to strong organic growth in international average

extended credit card balances, up 32% to £3.3bn and average secured consumer lending balances up 26% to £4.3bn, partially offset by lower UK average extended credit card balances which fell 14% to £6.9bn. Margins fell to 6.51% (2006: 7.05%) due to higher average base rates across core operating markets and a change in the product mix with an increased weighting to secured lending.

Net fee and commission income fell 3% (£40m) to £1,143m (2006: £1,183m), with growth in Barclaycard International offset by our actions in response to the Office of Fair Trading's findings on late and overlimit fees in the UK which were implemented in August 2006.

Impairment charges improved 21% (£226m) to £827m (2006: £1,053m), reflecting reduced flows into delinquency, lower levels of arrears and lower charge-offs in UK Cards. We made changes to our impairment methodologies to standardise our approach and in anticipation of Basel II. The net positive impact of these changes in methodology was offset by an increase in impairment charges in Barclaycard International and secured consumer lending.

Operating expenses increased 10% (£100m) to £1,093m (2006: £993m). Excluding a property gain of £38m in 2006, operating expenses increased 6% (£62m), reflecting continued investment in expanding our businesses in Europe and the United States. Costs in the UK businesses were broadly flat, with investment in new UK product innovations such as Barclaycard OnePulse being funded out of operating efficiencies.

Barclaycard International continued to gain momentum, delivering a profit before tax of £152m against a profit before tax of £8m in 2006. The Entercard joint venture continued to perform ahead of plan and entered the Danish market, extending its reach across the Scandinavian region. Barclaycard US was profitable, with very strong average balance growth and a number of new card partnerships, including Lufthansa Airlines and Princess Cruise Lines.

Barclaycard

2008	2007	2006
£m	£m	£m

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Income statement information

Net interest income	1,786	1,374	1,363
Net fee and commission income	1,299	1,143	1,183
Net tracking income	2		
Net investment income	80	11	20
Principal transactions	82	11	20
Net premiums from insurance contracts	44	40	18
Other income	19	(25)	
Total income	3,230	2,543	2,584
Net claims and benefits incurred on insurance contracts	(11)	(13)	(8)
Total income net of insurance claims	3,219	2,530	2,576
Impairment charges and other credit provisions	(1,097)	(827)	(1,053)
Net income	2,122	1,703	1,523
Operating expenses excluding amortisation of intangible assets	(1,361)	(1,057)	(969)
Amortisation of intangible assets	(61)	(36)	(24)
Operating expenses	(1,422)	(1,093)	(993)
Share of post-tax results of associates and joint ventures	(3)	(7)	(8)
Gain on acquisition	92		
Profit before tax	789	603	522

Balance sheet information

Loans and advances to customers	£ 27.4bn	£ 19.7bn	£ 18.1bn
Total assets	£ 30.9bn	£ 22.1bn	£ 20.0bn

Performance ratios

Return on average economic capital	23%	20%	19%
Cost: income ratio	44%	43%	39%
Cost: net income ratio	67%	64%	65%

Other financial measures

Risk Tendency	£ 1,475m	£ 955m	£ 1,090m
Economic profit	£ 335m	£ 213m	£ 183m
Risk weighted assets ^a	£ 27.3bn	£ 20.2bn	£ 16.9bn

Note

^a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Analysis of results by business

Global Retail and Commercial Banking

Western Europe

GRCB Western Europe comprises our retail and commercial banking operations as well as our Barclaycard businesses in Spain, Portugal, France and Italy.

What we do

GRCB Western Europe serves more than 2m retail and commercial banking customers in France, Italy, Portugal and Spain through a variety of distribution channels including 961 branches, 184 sales centres and 988 ATMs.

GRCB Western Europe provides a variety of products and services including retail mortgages, current and deposit accounts, commercial lending, unsecured lending, credit cards, investments and insurance products, serving the needs of Barclays retail, mass affluent and corporate customers.

Performance

2008/07

GRCB Western Europe profit before tax grew 31% (£61m) to £257m (2007: £196m), despite challenging market conditions in Spain and accelerated investment in the expansion of the franchise. Distribution points increased 347 to 1,145 (2007: 798), including 149 in Italy. Strong income growth including gains of £82m from the Visa IPO and the sale of shares in MasterCard was partially offset by increased impairment and higher operating costs. Profit before tax was favourably impacted by the 16% appreciation in the average value of the Euro against Sterling.

Income increased 53% (£493m) to £1,430m (2007: £937m), reflecting growth in both net interest income and net fee and commission income.

Net interest income increased 62% (£329m) to £856m (2007: £527m), driven by a 63% increase in customer liabilities to £15.3bn (2007: £9.4bn) and a 53% increase in customer assets to £53.5bn (2007: £35.0bn).

Net fee and commission income increased 19% (£61m) to £383m (2007: £322m). Increased fees in retail and in the life insurance businesses were offset by lower market-related investment revenue.

Principal transactions grew £59m to £165m (2007: £106m) including

gains from the Visa IPO (£65m) and the sale of shares in MasterCard (£17m) which enabled GRCB Western Europe to invest in the expansion of the business.

Impairment charges increased £220m to £296m (2007: £76m). This increase was principally due to higher charges in Spanish commercial property (£82m) and deterioration of the Spanish credit card portfolio (£66m) as a consequence of the rapid slowdown in the Spanish economy.

Operating expenses increased 38% (£256m) to £929m (2007: £673m), reflecting the rapid expansion of the retail distribution network and the strengthening of the Premier segment. Operating expenses also included £55m (2007: £22m) gains from the sale of property.

Gain on acquisition of £52m (2007: £nil) arose from the purchase of the Italian residential mortgage business of Macquarie Bank Limited in November 2008.

2007/06

GRCB Western Europe profit before tax increased 21% (£34m) to £196m (2006: £162m). The performance reflected strong income growth driven by an increase in distribution points of 145 to 798 (2006: 653).

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Income increased 25% (£186m) to £937m (2006: £751m), reflecting strong growth in net fee and commission income and principal transactions.

Net interest income increased 21% (£91m) to £527m (2006: £436m), driven by a 38% increase in customer liabilities to £9.4bn (2006: £6.8bn) and a 30% increase in customer assets to £35.0bn (2006: £26.9bn).

Net fee and commission income increased 30% (£74m) to £322m (2006: £248m), driven by the expansion of the customer base.

Principal transactions grew 34% (£27m) to £106m (2006: £79m), reflecting gains on equity investments.

Impairment charges grew 100% (£38m) to £76m (2006: £38m), reflecting very strong balance sheet growth.

Operating expenses grew 22% (£123m) to £673m (2006: £550m), driven by the expansion of the distribution network. Operating expenses included property sales in Spain of £22m (2006: £55m).

Highlights

Performance indicators

Key facts

Number of distribution points	2008 1,145	2007 798	2006 653
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GRCB Western Europe

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	856	527	436
Net fee and commission income	383	322	248
Net trading income	4	13	14
Net investment income	161	93	65
Principal transactions	165	106	79
Net premiums from insurance contracts	352	145	110
Other income	39	7	16
Total income	1,795	1,107	889
Net claims and benefits incurred under insurance contracts	(365)	(170)	(138)
Total income net of insurance claims	1,430	937	751
Impairment charges	(296)	(76)	(38)
Net income	1,134	861	713
Operating expenses excluding amortisation of intangible assets	(915)	(665)	(542)
Amortisation of intangible assets	(14)	(8)	(8)
Operating expenses	(929)	(673)	(550)
Share of post-tax results of associates and joint ventures			(1)
Profit on disposal of subsidiaries, associates and joint ventures		8	
Gain on acquisition	52		
Profit before tax	257	196	162
Balance sheet information			
Loans and advances to customers	£ 53.5bn	£ 35.0bn	£ 26.9bn
Customer accounts	£ 15.3bn	£ 9.4bn	£ 6.8bn
Total assets	£ 64.7bn	£ 43.7bn	£ 33.5bn
Performance ratios			
Return on average economic capital	19%	11%	11%
Cost: income ratio	65%	72%	73%
Cost: net income ratio	82%	78%	77%
Other financial measures			
Risk Tendency	£ 270m	£ 135m	£ 90m
Economic profit	£ 164m	£ 16m	£ 9m
Risk weighted assets ^a	£ 36.5bn	£ 25.0bn	£ 17.6bn

Note

^a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Financial review

Analysis of results by business

Global Retail and Commercial Banking

Emerging Markets

GRCB Emerging Markets comprises our retail and commercial banking operations, as well as our Barclaycard businesses, in 14 countries across Africa, the Middle East and South East Asia.

What we do

GRCB Emerging Markets serves retail and commercial banking customers in Botswana, Egypt, Ghana, India, Kenya, Mauritius, Pakistan, Russia, Seychelles, Tanzania, Uganda, the UAE, Zambia and Zimbabwe.

Through a network of more than 830 distribution points and 1,440 ATMs, we provide 4.2m customers and clients with a full range of products and services. This includes current accounts, savings, investments, mortgages and secured and unsecured lending.

Performance

2008/07

GRCB Emerging Markets profit before tax increased 34% (£34m) to £134m (2007: £100m). Very strong income growth, including £82m from the Visa IPO and the sale of shares in MasterCard, absorbed the increased investment across existing and new markets and higher impairment charges. The number of distribution points increased 286 to 836 (2007: 550). New market entries in 2008 comprised the acquisition of Expobank in Russia, the launch of a new business in Pakistan and the announced acquisition of Bank Akita in Indonesia.

Income increased 91% (£486m) to £1,019m (2007: £533m), reflecting growth in lending, deposit taking and fee-driven transactional revenues.

Net interest income increased 93% (£297m) to £616m (2007: £319m), loans and advances to customers increased 98% to £10.1bn (2007: £5.1bn). The assets margin decreased 167 basis points to 4.95% (2007: 6.62%), reflecting higher funding costs, partially offset by improvement in the product mix. Customer accounts increased 55% to £9.6bn (2007: £6.2bn). The deposit margin improved 142 basis points to 2.17% (2007: 0.75%), driven by a change in the product mix and a higher return from funding the assets.

Highlights

Performance indicators

Key facts

Number of distribution points	2008 836	2007 550	2006 214
Average liabilities balances	£7.6bn	£5.1bn	£4.0bn
Average asset balances	£7.1bn	£3.6bn	£2.3bn

Net fee and commission income increased 59% (£83m) to £223m (2007: £140m), primarily driven by very strong growth in commercial banking and treasury fee income.

Principal transactions increased £97m to £169m (2007: £72m), reflecting higher foreign exchange income, a gain of £68m relating to the Visa IPO and a gain of £14m from the sale of shares in MasterCard.

Impairment charges increased £127m to £166m (2007: £39m), reflecting higher assets and delinquencies, particularly in India and increased wholesale impairment in Africa.

Operating expenses increased 82% (£324m) to £719m (2007: £395m), reflecting continued investment in new markets and expansion of the business in existing markets, with investment in infrastructure and the roll-out of global platforms.

2007/06

GRCB Emerging Markets profit before tax decreased 74% to £100m (2006: £384m). The performance in 2006 reflected the sale of First Carribean International Bank which resulted in a profit of £247m in December 2006. In addition, profits of £41m were generated by the First Carribean business up to date of sale. Excluding First Carribean, the performance reflected very strong income growth driven by a rapid growth

in distribution points to 550 (2006: 214), as well as the launch of new businesses in India and UAE.

Income increased 35% (£137m) to £533m (2006: £396m) driven by new business in India and UAE and excellent performances in Egypt, Kenya and Ghana.

Net interest income increased 30% (£73m) to £319m (2006: £246m). Total customer loans increased 89% (£2.4bn) to £5.1bn (2006: £2.7bn) with lending margins improving with changing product mix. Customer deposits increased 47% (£2.0bn) to £6.2bn (2006: £4.2bn), driven by growth across the markets.

Net fee and commission income declined marginally (£1m) to £140m (2006: £141m).

Principal transactions increased £68m to £72m (2006: £4m), reflecting gains on equity investments and higher foreign exchange income across markets.

Impairment charges rose 30% (£9m) to £39m (2006: £30m). The increase reflected very strong balance sheet growth in 2006 and 2007.

Operating expenses grew 46% (£125m) to £395m (2006: £270m), driven by the rapid expansion of the distribution network across all markets and investment in people and infrastructure to support future growth across the franchise.

GRCB Emerging Markets

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	616	319	246
Net fee and commission income	223	140	141
Net trading income	78	56	3
Net investment income	91	16	1
Principal transactions	169	72	4
Net premiums from insurance contracts			1

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Other income	11	2	4
Total income	1,019	533	396
Impairment charges	(166)	(39)	(30)
Net income	853	494	366
Operating expenses excluding amortisation of intangible assets	(711)	(391)	(269)
Amortisation of intangible assets	(8)	(4)	(1)
Operating expenses	(719)	(395)	(270)
Share of post-tax results of associates and joint ventures		1	41
Profit on disposal of subsidiaries, associates and joint ventures			247
Profit before tax	134	100	384
Balance sheet information			
Loans and advances to customers	£ 10.1bn	£ 5.1bn	£ 2.7bn
Customer accounts	£ 9.6bn	£ 6.2bn	£ 4.2bn
Total assets	£ 14.7bn	£ 9.2bn	£ 5.2bn
Performance ratios			
Return on average economic capital	9%	15%	103%
Cost: income ratio	71%	74%	68%
Cost: net income ratio	84%	80%	74%
Other financial measures			
Risk Tendency	£ 350m	£ 140m	£ 35m
Economic profit	£ (11m)	£ 26m	£ 308m
Risk weighted assets ^a	£ 15.1bn	£ 10.5bn	£ 3.3bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Financial review

Analysis of results by business

Global Retail and Commercial Banking

Absa

GRCB Absa comprises three operating divisions: Retail Banking, Commercial Banking and a Bancassurance division. The Absa Group's other businesses are Absa Capital and Absa Card, which are included in Barclays Capital and Barclaycard respectively.

What we do

GRCB Absa forms part of Absa Group Limited, one of South Africa's largest financial services groups, listed on the Johannesburg Stock Exchange Limited. GRCB Absa offers a complete range of banking products and services, including current accounts, savings products, bancassurance, mortgages, instalment finance and wealth management. It also offers customised business solutions for commercial and large corporate customers.

Absa's business is conducted primarily in South Africa. In addition to this, the Group has equity holdings in banks in Mozambique, Angola and Tanzania.

Absa serves more than 10m customers through a range of physical channels that include 1,177 distribution points and 8,719 ATMs, as well as electronic channels such as telephone and online banking.

Performance

2008/07

Impact of Absa Group Limited on Barclays Results

Absa Group Limited profit before tax of R15,209m (2007: R14,077m), which increased 8%, is translated into Barclays results at an average exchange rate of R15.17/£ (2007: R14.11/£), a 7% depreciation in the

average value of the Rand against Sterling. Consolidation adjustments reflected the amortisation of intangible assets of £49m (2007: £47m) and internal funding and other adjustments of £169m (2007: £129m). The resulting profit before tax of £785m (2007: £822m) is represented within GRCB Absa £552m (2007: £597m), Barclays Capital £175m (2007: £155m) and Barclaycard £58m (2007: £70m).

Absa Group Limited's total assets were R773,758m (31st December 2007: R640,909m), growth of 21%. This is translated into Barclays results at a period end exchange rate of R13.74/£ (2007: R13.64/£).

Global Retail and Commercial Banking Absa

GRCB Absa profit before tax decreased 8% (£45m) to £552m (2007: £597m), owing to challenging market conditions and the 7% depreciation in the average value of the Rand against Sterling. Profit before tax included a gain of £47m relating to the Visa IPO. Very strong Rand income growth was partially offset by increased impairment and investment in the expansion of the franchise by 176 distribution points to 1,177 (2007: 1,001).

Total income increased 10% (£211m) to £2,324m (2007: £2,113m).

Net interest income improved 5% (£49m) to £1,104m (2007: £1,055m) reflecting strong balance sheet growth. Average customer assets increased 9% to £27.7bn (2007: £25.3bn), primarily driven by retail and commercial mortgages and commercial cheque accounts. The assets margin increased to 2.79% (2007: 2.70%) as a result of a focus on pricing for risk and a change in the composition of the book, partially offset by the higher cost of wholesale funding. Average customer liabilities increased 17% to £13.5bn (2007: £11.5bn), primarily driven by retail savings, with margins down 15 basis points to 3.06% (2007: 3.21%) reflecting the emphasis on liquidity and strong growth in lower margin retail deposits.

Net fee and commission income increased 11% (£78m) to £762m (2007: £684m), underpinned by retail transaction volume growth.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of ATMs	8,719	8,162	7,411
Number of corporate customers	107,000	100,000	84,000

Principal transactions increased £41m to £111m (2007: £70m) reflecting gains on economic hedges relating to the commercial property finance and liquid asset portfolios.

Other income increased £36m to £113m (2007: £77m), reflecting a gain of £47m from the Visa IPO.

Impairment charges increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Operating expenses increased 3% (£38m) to £1,305m (2007: £1,267m). The cost:income ratio improved from 63% to 59%.

2007/06

Impact of Absa Group Limited on Barclays results

Absa Group Limited's profit before tax of R14,077m (2006: R11,417m) is translated into Barclays results at an average exchange value of R14.11/£ (2006: R12.47/£), a 12% depreciation in the average value of the Rand against Sterling. Consolidation adjustments reflected the amortisation of intangible assets of £47m (2006: £69m) and internal funding and other adjustments of £129m (2006: £97m). The resulting profit before tax of £822m (2006: £750m) is represented within GRCB Absa £597m (2006: £609m), Barclays Capital £155m (2006: £71m) and Barclaycard £70m (2006: £70m).

Absa Group Limited's total assets were R640,909m (2006: R495,112m), a growth of 29%. This is translated into Barclays results at a period-end exchange rate of R13.64/£ (2006: R13.71/£). The capital investment was hedged against currency movements in 2007.

Global Retail and Commercial Banking Absa

GRCB Absa profit before tax decreased 2% (£12m) to £597m (2006: £609m) mainly owing to the weaker currency. The impact of the weaker currency was offset by very good performances from Retail Banking and Absa Corporate and Business Bank. Key factors impacting the results included: very strong asset and income growth; the diversification of earnings in favour of investment banking and commercial banking; an increased retail credit impairment charge, and the achievement of the Absa Barclays synergy target 18 months ahead of schedule.

Income decreased 2% (£32m) to £1,999m (2006: £2,031m).

Net interest income increased by 7% (£72m) to £1,055m (2006: £983m), driven by growth in loans and advances and deposits at improved margins. Loans and advances to customers increased 27% from 31st December 2006 mainly driven by growth of 23% in mortgages.

Net fee and commission income decreased by 9% (£70m) to £684m (2006: £754m) mainly owing to the weaker currency. The increase in local currency reflects a growth of 3% underpinned by increased transaction volumes in Retail Banking and Absa Corporate and Business Bank.

Principal transactions decreased £36m to £70m (2006: £106m) reflecting losses on economic hedges relating to the commercial property finance and liquid asset portfolios.

Other income increased £23m to £77m (2006: £54m).

Impairment charges increased £34m to £146m (2006: £112m) from the cyclically low levels of recent years, Arrears in retail portfolios increased driven by interest rate increases in 2006 and 2007. Impairment charges as a percentage of loans and advances to customers was 0.49%, ahead of the 0.48% charge in 2006 but within long-term industry averages.

Operating expenses decreased 4% (£52m) to £1,267m (2006: £1,319m), resulting from the realisation of synergy benefits of R1,428m (£100m) to date thus achieving the synergy target of R1.4bn 18 months ahead of schedule. This was partially offset by the increased investment in new distribution outlets and staff in order to support continued growth in volumes and customers.

GRCB Absa

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	1,104	1,055	983
Net fee and commission income	762	684	754
Net trading income/(expense)	6		(11)
Net investment income	105	70	117
Principal transactions	111	70	106
Net premiums from insurance contracts	234	227	240
Other income	113	77	54
Total income	2,324	2,113	2,137
Net claims and benefits incurred under insurance contracts	(126)	(114)	(106)
Total income net of insurance claims	2,198	1,999	2,031
Impairment charges	(347)	(146)	(112)
Net income	1,851	1,853	1,919
Operating expenses excluding amortisation of intangible assets	(1,255)	(1,212)	(1,250)
Amortisation of intangible assets	(50)	(55)	(69)
Operating expenses	(1,305)	(1,267)	(1,319)
Share of post-tax results of associates and joint ventures	5	6	9
Profit on disposal of subsidiaries, associates and joint ventures	1	5	
Profit before tax	552	597	609
Balance sheet information			
Loans and advances to customers	£ 32.7bn	£ 29.9bn	£ 23.5bn
Customer accounts	£ 17.0bn	£ 13.0bn	£ 10.9bn
Total assets	£ 40.4bn	£ 36.4bn	£ 29.6bn
Performance ratios			
Return on average economic capital	20%	20%	29%
Cost:income ratio	59%	63%	65%
Cost:net income ratio	71%	68%	69%
Other financial measures			
Risk Tendency	£ 255m	£ 190m	£ 130m
Economic profit	£ 70m	£ 98m	£ 138m
Risk weighted assets ^a	£ 18.8bn	£ 17.8bn	£ 19.8bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Analysis of results by business

Investment Banking and Investment Management

Barclays Capital

Barclays Capital is a leading global investment bank providing large corporate, government and institutional clients with a full spectrum of solutions to their strategic advisory, financing and risk management needs.

What we do

Barclays Capital is a global investment bank, which offers clients the full range of services covering strategic advisory and M&A; equity and fixed income capital raising and corporate lending; and risk management across foreign exchange, interest rates, equities and commodities.

Activities are organised into three principal areas: Global Markets, which includes commodities, credit products, equities, foreign exchange, interest rate products; Investment Banking, which includes corporate advisory, Mergers and Acquisitions, equity and fixed-income capital raising and corporate lending; and Private Equity and Principal Investments. Barclays Capital includes Absa Capital, the investment banking business of Absa.

Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

Performance

2008/07

In an exceptionally challenging market environment Barclays Capital profit before tax decreased 44% (£1,033m) to £1,302m (2007: £2,335m). Profit before tax included a gain on the acquisition of Lehman Brothers North American businesses of £2,262m. Absa Capital profit before tax grew 13% to £175m (2007: £155m).

Net income included gross losses of £8,053m (2007: £2,999m) due to continuing dislocation in the credit markets. These losses were partially offset by income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on structured notes issued by Barclays Capital. The gross losses, comprised £6,290m (2007: £2,217m) against income and £1,763m (2007: £782m) in impairment charges. Further detail is provided on page 107.

The integration of the Lehman Brothers North American businesses is complete and the acquired businesses made a positive contribution, with

good results in equities, fixed income and advisory. There was a gain on acquisition of £2,262m. Not included in this gain is expenditure relating to integration of the acquired business.

Income was down 27% at £5,231m (2007: £7,119m) driven by the impact of the market dislocation. Underlying income, which excludes the gross losses, related income and hedges, and gains on the widening of credit spreads was 6% above the prior year and included strong contributions from interest rates, currency products, emerging markets, prime services and commodities. There was very strong underlying growth in the US driven by fixed income, prime services and the acquired businesses. In other regions income fell driven by the challenging environment.

Net trading income decreased 60% (£2,233m) to £1,506m (2007: £3,739m) reflecting losses from the credit market dislocation and weaker performance in credit products and equities. This was partially offset by significant growth in interest rates, foreign exchange, emerging markets and prime services. Average DVaR at 95% increased by 64% to £53.4m driven by higher credit spread and interest rate risk.

Net investment income decreased 41% (£394m) to £559m reflecting the market conditions. Net interest income increased 46% (£545m) to £1,724m (2007: £1,179m), driven by strong results in global loans and money markets. Net fee and commission income from advisory and origination activities increased 16% (£194m) to £1,429m. The corporate lending portfolio, including leveraged finance, increased 46% to £76.6bn (31st December 2007: £52.3bn) driven by the decline in the value of Sterling relative to other currencies as well as draw downs on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions.

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Impairment charges and other credit provisions of £2,423m (2007: £846m) included £1,763m (2007: £782m) due to the credit market dislocation. Other impairment charges of £660m (2007: £64m) principally related to private equity, prime services and the loan book.

Operating expenses fell 5% (£199m) to £3,774m (2007: £3,973m) due to lower performance related pay, partially offset by operating costs of the acquired businesses. The cost:net income ratio increased to 134% (2007: 63%) and the compensation cost:net income ratio increased to 82% (2007: 47%). Amortisation of intangible assets increased £38m to £92m (2007: £54m).

Total headcount increased 6,900 to 23,100 (31st December 2007: 16,200). Prior to the acquisition of Lehman Brothers North American businesses, headcount during 2008 was materially unchanged except for hiring associated with the annual global graduate programme. The acquisition initially added 10,000 to the headcount but there were reductions in the fourth quarter as the US businesses were integrated.

Highlights

Performance indicators

Key facts

League table rankings

Rankings:

	2008	2007	2006
Global All Bonds	1	2	1
US Investment Grade	3	10	7
US Government Securities Survey	1	1	8
Foreign Exchange Survey	3	5	4
US M&A	4		

2007/06

Barclays Capital delivered profits ahead of the record results achieved in 2006 despite challenging trading conditions in the second half of the year. Profit before tax increased 5% (£119m) to £2,335m (2006: £2,216m). There was strong income growth across the Rates businesses and excellent results in Continental Europe, Asia and Africa demonstrating the breadth of the client franchise. Net income was slightly ahead at £6,273m (2006: £6,225m) and costs were tightly managed, declining slightly year on year. Absa Capital delivered very strong growth in profit before tax to £155m (2006: £71m).

The US sub-prime driven market dislocation affected performance in the second half of 2007. Exposures relating to US sub-prime were actively managed and declined over the period. Barclays Capital's 2007 results reflected gross losses of £2,999m (2006: £nil) due to the dislocation of credit markets. These losses were partially offset by income and hedges of £706m (2006: £nil) and gains of £658m (2006: £nil) from the general widening of credit spreads on structured notes issued by Barclays Capital. The gross losses comprised £2,217m (2006: £nil) against income and £782m (2006: £nil) in impairment charges.

Income increased 14% (£852m) to £7,119m (2006: £6,267m) as a result of very strong growth in interest rate, currency, equity, commodity and emerging market asset classes. There was excellent income growth in continental Europe, Asia, and Africa. Average DVaR increased 13% to £42m (2006: £37.1m) in line with income.

Secondary income, comprising principal transactions (net trading income and net investment income), is mainly generated from providing client financing and risk management solutions. Secondary income increased 11% (£578m) to £5,871m (2006: £5,293m).

Net trading income increased 5% (£177m) to £3,739m (2006: £3,562m) with strong contributions from fixed income, commodities, equities, foreign exchange and prime services businesses. These were largely offset by net losses in the business affected by sub-prime

mortgage related write-downs. The general widening of credit spreads that occurred over the course of the second half of 2007 also reduced the carrying value of the £40.7bn of structured notes issued by Barclays Capital held at fair value on the balance sheet, resulting in gains of £658m (2006: £nil). Net investment income increased 66% (£380m) to £953m (2006: £573m) as a result of a number of private equity realisations, investment disposals in Asia and structured capital markets transactions. Net interest income increased 2% (£21m) to £1,179m (2006: £1,158m), driven by higher contributions from money markets. The corporate lending portfolio increased 29% to £52.3bn (2006: £40.6bn), largely due to an increase in drawn leveraged finance positions and a rise in drawn corporate loan balances.

Primary income, which comprises net fee and commission income from advisory and origination activities, grew 30% (£283m) to £1,235m (2006: £952m), with good contributions from bonds and loans.

Impairment charges and other credit provisions of £846m included £722m against ABS CDO Super Senior exposures, £60m from other credit market exposures and £58m relating to drawn leveraged finance underwriting positions. Other impairment charges on loans and advances amounted to a release of £7m (2006: £44m release) before impairment charges on available for sale assets of £13m (2006: £86m).

Operating expenses decreased 1% (£36m) to £3,973m (2006: £4,009m). The cost:net income ratio improved to 63% (2006: 64%) and the compensation cost:net income ratio improved by two percentage points to 47% (2006: 49%). Performance related pay, discretionary investment spend and short term contractor resources represented 42% (2006: 50%) of the cost base. Amortisation of intangible assets of £54m (2006: £13m) principally related to mortgage service rights.

Total headcount increased 3,000 during 2007 to 16,200 (2006: 13,200) including 800 from the acquisition of EquiFirst. The majority of organic growth was in Asia Pacific.

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	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	1,724	1,179	1,158
Net fee and commission income	1,429	1,235	952
Net trading income	1,506	3,739	3,562
Net investment income	559	953	573
Principal transactions	2,065	4,692	4,135
Other income	13	13	22
Total income	5,231	7,119	6,267
Impairment charges and other credit provisions	(2,423)	(846)	(42)
Net income	2,808	6,273	6,225
Operating expenses excluding amortisation of intangible assets	(3,682)	(3,919)	(3,996)
Amortisation of intangible assets	(92)	(54)	(13)
Operating expenses	(3,774)	(3,973)	(4,009)
Share of post-tax results of associates and joint ventures	6	35	
Gain on acquisition	2,262		
Profit before tax	1,302	2,335	2,216
Balance sheet information			
Total assets	£ 1,629.1bn	£ 839.9bn	£ 657.9bn
Performance ratios			
Return on average economic capital	20%	33%	41%
Cost:income ratio	72%	56%	64%
Cost:net income ratio	134%	63%	64%
Compensation:net income ratio	82%	47%	49%
Other financial measures			
Risk Tendency	£ 415m	£ 140m	£ 95m
Economic profit	£ 825m	£ 1,172m	£ 1,181m
Risk weighted assets ^a	£ 227.4bn	£ 178.2bn	£ 137.6bn
Average DVaR (95%) ^b	£ 53.4m	£ 32.5m	£ 37.1m
Average net income generated per member of staff (000)	£ 151	£ 410	£ 565
Corporate lending portfolio	£ 76.6bn	£ 52.3bn	£ 40.6bn

Notes

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

b Average DVaR for 2007 and 2006 are calculated with a 98% confidence level.

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Financial review

Analysis of results by business

Investment Banking and Investment Management

Barclays Global Investors

Barclays Global Investors (BGI) is one of the world's largest asset managers and a leading global provider of investment management products and services. We are the global leader in assets and products in the exchange traded funds business, with 360 funds for institutions and individuals trading globally. BGI's investment philosophy is founded on managing all dimensions of performance: a consistent focus on controlling risk, return and cost.

With a 3,000-plus strong workforce, we currently have over £1trn in assets under management, for 3,000 clients around the world.

What we do

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products including hedge funds and provides related investment services such as securities lending, cash management and portfolio transition services.

BGI collaborates with the other Barclays businesses, particularly Barclays Capital and Barclays Wealth, to develop and market products and leverage capabilities to better serve the client base.

Performance

2008/07

Barclays Global Investors profit before tax decreased 19% (£139m) to £595m (2007: £734m). Profit was impacted by the cost of provision of selective support of liquidity products of £263m (2007: £80m) and an 8% appreciation in the average value of the US Dollar against Sterling.

Income declined 4% (£82m) to £1,844m (2007: £1,926m).

Net fee and commission income declined 1% (£19m) to £1,917m (2007: £1,936m). This was primarily attributable to reduced incentive fees of £49m (2007: £198m), partially offset by increased securities lending revenue.

Operating expenses increased 5% (£57m) to £1,249m (2007: £1,192m). Operating expenses included charges of £263m (2007: £80m) related to selective support of liquidity products, partially offset by a reduction in performance related costs. The cost:income ratio increased to 68% (2007: 62%).

Highlights

Performance indicators

Key facts

	2008	2007	2006
Assets under management (£):			
indexed	1,040bn	1,044bn	927bn
iShares	653bn	615bn	566bn
active	226bn	205bn	147bn
Net new assets in period (£)	161bn	224bn	214bn
	61bn	42bn	37bn
Assets under management (US\$):			
indexed	1,495bn	2,079bn	1,814bn
iShares	939bn	1,225bn	1,108bn
active	325bn	408bn	287bn
Net new assets in period (US\$)	231bn	446bn	419bn
	99bn	86bn	68bn
Number of iShares products	360	324	191
Number of institutional clients	3,000	3,000	2,900

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Total assets under management remained flat at £1,040bn (2007: £1,044bn) comprising £61bn of net new assets, £234bn of favourable exchange movements and £299bn of adverse market movements. In US Dollar terms assets under management decreased 28% (US\$584bn) to US\$1,495bn (2007: US\$2,079bn), comprising US\$99bn of net new assets, US\$130bn of negative exchange rate movements and US\$553bn of negative market movements.

2007/06

Barclays Global Investors delivered solid growth in profit before tax, which increased 3% (£20m) to £734m (2006: £714m). Very strong US Dollar income and strong profit growth was partially offset by the 8% depreciation in the average value of the US Dollar against Sterling.

Income grew 16% (£261m) to £1,926m (2006: £1,665m).

Net fee and commission income grew 17% (£285m) to £1,936m (2006: £1,651m). This was primarily attributable to increased management fees and securities lending. Incentive fees increased 6% (£12m) to £198m (2006: £186m). Higher asset values, driven by higher market levels and good net new inflows, contributed to the growth in income.

Operating expenses increased 25% (£241m) to £1,192m (2006: £951m) as a result of significant investment in key product and channel growth initiatives and in infrastructure as well as growth in the underlying business. Operating expenses included charges of £80m (2006: £nil) related to selective support of liquidity products managed in the US. The cost:income ratio rose five percentage points to 62% (2006: 57%).

Headcount increased 700 to 3,400 (2006: 2,700). Headcount increased in all geographical regions and across product groups and the support functions, reflecting continued investment to support further growth.

Total assets under management increased 13% (£117bn) to £1,044bn (2006: £927bn) comprising £42bn of net new assets, £12bn attributable to the acquisition of Indexchange Investment AG (Indexchange), £66bn of favourable market movements and £3bn of adverse exchange movements. In US Dollar terms assets under management increased 15% (US\$265bn) to US\$2,079bn (2006: US\$1,814bn), comprising US\$86bn of net new assets, US\$23bn attributable to acquisition of Indexchange, US\$127bn of favourable market movements and US\$29bn of positive exchange rate movements.

Barclays Global Investors

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest (expense)/income	(38)	(8)	10
Net fee and commission income	1,917	1,936	1,651
Net trading income	(14)	5	2
Net investment (expense)/income	(29)	(9)	2
Principal transactions	(43)	(4)	4
Other income	8	2	
Total income	1,844	1,926	1,665
Operating expenses excluding amortisation of intangible assets	(1,234)	(1,184)	(946)
Amortisation of intangible assets	(15)	(8)	(5)
Operating expenses	(1,249)	(1,192)	(951)
Profit before tax	595	734	714
Balance sheet information			

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Total assets	£ 71.3bn	£ 89.2bn	£ 80.5bn
Performance ratios			
Return on average economic capital	88%	241%	228%
Cost:income ratio	68%	62%	57%
Other financial measures			
Economic profit	£ 289m	£ 430m	£ 376m
Risk weighted assets ^a	£ 3.9bn	£ 4.4bn	£ 1.4bn
Average net income generated per member of staff (000)	£ 512	£ 631	£ 666
Note			

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Financial review

Analysis of results by business

Investment Banking and Investment Management

Barclays Wealth

Barclays Wealth focuses on high net worth, affluent and intermediary clients worldwide. We are the UK's leading wealth manager by client assets. We have 7,900 staff in over 20 countries and have total client assets of £145bn. We have offices across the Americas following the acquisition of Lehman Brothers Private Investment Management in 2008.

What we do

Barclays Wealth provides international and private banking, fiduciary services, investment management, and brokerage.

We work closely with all other parts of the Group to leverage synergies from client relationships and product capabilities, for example, offering world-class investment solutions with institutional quality products and services from Barclays Capital and Barclays Global Investors.

Performance

2008/07

Barclays Wealth profit before tax grew 119% (£364m) to £671m (2007: £307m). Profit before gains on disposal increased 12% (£38m) driven by solid income growth and tight cost control, offset by an increase in impairment charges. The closed life assurance business contributed profit before tax of £104m (2007: £110m) prior to its sale in October 2008, which generated a profit on disposal of £326m.

Income increased 3% (£37m) to £1,324m (2007: £1,287m).

Net interest income increased 13% (£55m) to £486m (2007: £431m) reflecting strong growth in both customer deposits and lending. Average deposits grew 19% to £37.2bn (2007: £31.2bn). Average lending grew 31% to £9.7bn (2007: £7.4bn). The assets margin decreased seven basis points to 1.04% (2007: 1.11%) reflecting changes in the product mix. The liabilities margin reduced by eight basis points to 0.95% (2007: 1.03%) driven by changes in the product mix and compression of margins as interest rates reduced during the second half of the year.

Net fee and commission income decreased 3% (£19m) to £720m (2007: £739m) driven by falling equity markets partially offset by increased client assets.

Net investment income, net premiums from insurance contracts and net claims and benefits paid on insurance contracts related wholly to the closed life assurance business. Their overall net impact on income increased marginally to £103m (2007: £95m). The decrease in net investment income, driven by a fall in the value of unit linked contracts and reduced premium income, were offset by reduced net claims and benefits as a result of a fall in the value of linked and non-linked liabilities.

Impairment charges increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

Operating expenses decreased 4% to £935m (2007: £973m) with significant cost savings including a reduction in performance related costs partially offset by increased expenditure in upgrading technology and operating platforms and continued hiring of client-facing staff.

Highlights

Performance indicators

Key facts

Total client assets	2008 £ 145.1bn	2007 £ 132.5bn	2006 £ 116.1bn
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Total client assets, comprising customer deposits and client investments, increased 10% (£12.6bn) to £145.1bn (2007: £132.5bn) with underlying net new asset inflows of £3.2bn and the acquisition of the Lehman Brothers North American businesses offsetting the impact of market and foreign exchange movements and the sale of the closed life assurance book.

2007/06

Barclays Wealth profit before tax showed very strong growth of 25% (£62m) to £307m (2006: £245m). Performance was driven by broadly based income growth, reduced redress costs and tight cost control, partially offset by additional volume-related costs and increased investment in people and infrastructure to support future growth.

Income increased 11% (£127m) to £1,287m (2006: £1,160m).

Net interest income increased 10% (£39m) to £431m (2006: £392m), reflecting strong growth in both customer deposits and lending. Average deposits grew 13% to £31.2bn (2006: £27.7bn). Average lending grew 35% to £7.4bn (2006: £5.5bn), driven by increased lending to high net worth, affluent and intermediary clients. Assets margin increased three basis points to 1.11% (2006: 1.08%), reflecting changes in the product mix. The liabilities margin reduced by seven basis points to 1.03% (2006: 1.10%) driven by competitive pricing of products.

Net fee and commission income grew 10% (£65m) to £739m (2006: £674m). This reflected growth in client assets and higher transactional income from increased sales of investment products and solutions.

Principal transactions decreased £101m to £55m (2006: £156m) as a result of lower growth in the value of unit linked insurance contracts. Net premiums from insurance contracts reduced £15m to £195m (2006: £210m). These reductions were offset by a lower charge for net claims and benefits incurred under insurance contracts of £152m (2006: £288m).

Operating expenses increased 7% to £973m (2006: £913m) with greater volume-related costs and a significant increase in investment partially offset by efficiency gains and lower customer redress costs of £19m (2006: £67m). Ongoing investment programmes included increased hiring of client-facing staff and improvements to infrastructure with the upgrade of technology and operations platforms. The cost:income ratio improved three percentage points to 76% (2006: 79%).

Total client assets, comprising customer deposits and client investments, increased 14% (£16.4bn) to £132.5bn (2006: £116.1bn), reflecting strong net new asset inflows and the acquisition of Walbrook, an independent fiduciary services company, which completed on 18th May 2007.

Barclays Wealth

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	486	431	392
Net fee and commission income	720	739	674
Net trading income	(11)	3	2
Net investment income	(333)	52	154
Principal transactions	(344)	55	156
Net premiums from insurance contracts	136	195	210
Other income	26	19	16
Total income	1,024	1,439	1,448
Net claims and benefits incurred on insurance contracts	300	(152)	(288)
Total income net of insurance claims	1,324	1,287	1,160

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Impairment charges	(44)	(7)	(2)
Net income	1,280	1,280	1,158
Operating expenses excluding amortisation of intangible assets	(919)	(967)	(909)
Amortisation of intangible assets	(16)	(6)	(4)
Operating expenses	(935)	(973)	(913)
Profit on disposal of associates and joint ventures	326		
Profit before tax	671	307	245
Balance sheet information			
Loans and advances to customers	£ 11.4bn	£ 9.0bn	£ 6.2bn
Customer accounts	£ 42.4bn	£ 34.4bn	£ 28.3bn
Total assets	£ 13.3bn	£ 18.2bn	£ 15.0bn
Performance ratios			
Return on average economic capital	118%	51%	40%
Cost:income ratio	71%	76%	79%
Cost:net income ratio	73%	76%	79%
Other financial measures			
Risk Tendency	£ 20m	£ 10m	£ 10m
Economic profit	£ 553m	£ 233m	£ 130m
Risk weighted assets ^a	£ 10.3bn	£ 8.2bn	£ 6.1bn
Average net income generated per member of staff (000)	£ 176	£ 188	£ 181

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Financial review

Analysis of results by business

Head office functions and other operations

Head office functions and other operations comprises:

Head office and central support functions

Businesses in transition

Inter-segment adjustments

What we do

Head office and central support functions comprises the following areas: Executive Management, Finance, Treasury, Corporate Affairs, Human Resources, Strategy and Planning, Internal Audit, Legal, Corporate Secretariat, Property, Tax, Compliance and Risk. Costs incurred wholly on behalf of the businesses are recharged to them.

Businesses in transition principally relate to certain lending portfolios that are centrally managed with the objective of maximising recovery from the assets.

Performance

2008/07

Head office functions and other operations loss before tax increased £430m to £858m (2007: £428m).

Total income decreased £185m to a loss of £377m (2007: loss of £192m).

Group segmental reporting is performed in accordance with Group accounting policies. This means that inter-segment transactions are recorded in each segment as if undertaken on an arm's length basis. Adjustments necessary to eliminate inter-segment transactions are included in Head office functions and other operations. The impact of such inter-segment adjustments increased £32m to £265m (2007: £233m). These adjustments included internal fees for structured capital market activities of £141m (2007: £169m) and fees paid to Barclays Capital for debt and equity raising and risk management advice of £151m (2007: £65m), both of which reduce net fees and commission income.

Net interest income increased £54m to £182m (2007: £128m) primarily due to a consolidation adjustment between net interest income and trading income required to match the booking of certain derivative hedging transactions between different segments in the Group. This resulted in a £111m increase in net interest income to £143m (2007: £32m) with an equal and opposite decrease in principal transactions.

This was partially offset by an increase in costs in central funding activity due to the money market dislocation, in particular LIBOR resets.

Principal transactions loss increased £135m to £218m (2007: £83m) reflecting the £111m increase in consolidation reclassification adjustment on derivative hedging transactions.

Impairment charges increased £27m to £30m (2007: £3m) mainly reflecting losses on Floating Rate Notes held for hedging purposes.

Operating expenses increased £217m to £451m (2007: £234m). The main drivers of this increase were: a £101m charge for the Group's share of levies that will be raised by the UK Financial Services Compensation Scheme; £64m costs relating to an internal review of Barclays compliance with US economic sanctions; the non-recurrence of a £58m break fee relating to the ABN Amro transaction; lower rental income and lower proceeds on property sales.

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2007/06

Head office functions and other operations loss before tax increased £169m to £428m (2006: £259m).

Group segmental reporting is performed in accordance with Group accounting policies. This means that inter-segment transactions are recorded in each segment as if undertaken on an arm's length basis. Adjustments necessary to eliminate inter-segment transactions are included in Head office functions and other operations.

The impact of such inter-segment adjustments increased £86m to £233m (2006: £147m). These adjustments included internal fees for structured capital market activities of £169m (2006: £87m) and fees paid to Barclays Capital for debt and equity raising and risk management advice of £65m (2006: £23m), both of which increased net fee and commission expense in Head office. The impact on the inter-segment adjustments of the timing of the recognition of insurance commissions included in Barclaycard was a reduction in Head office income of £9m (2006: £44m). This net reduction was reflected in a decrease in net fee and commission income of £162m (2006: £184m) and an increase in net premium income of £153m (2006: £140m).

Principal transactions decreased to a loss of £83m (2006: £42m profit). 2006 included a £55m profit from a hedge of the expected Absa foreign currency earnings.

Operating expenses decreased £35m to £234m (2006: £269m). The primary driver of this decrease was the receipt of a break fee relating to the ABN AMRO transaction which, net of transaction costs, reduced expenses by £58m. This was partially offset by lower rental income and lower proceeds on property sales.

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Head office functions and other operations

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	182	128	80
Net fee and commission income	(486)	(424)	(301)
Net trading (loss)/income	(245)	(66)	40
Net investment income/(expense)	27	(17)	2
Principal transactions	(218)	(83)	42
Net premiums from insurance contracts	119	152	139
Other income	26	35	39
Total income	(377)	(192)	(1)
Impairment (charges)/releases	(30)	(3)	11
Net income	(407)	(195)	10
Operating expenses excluding amortisation of intangible assets	(451)	(233)	(259)
Amortisation of intangible assets		(1)	(10)
Operating expenses	(451)	(234)	(269)
Profit on disposal of associates and joint ventures		1	
Loss before tax	(858)	(428)	(259)
Balance sheet information			
Total assets	£ 3.1bn	£ 5.7bn	£ 7.1bn
Other financial measures			
Risk Tendency	£ 5m	£ 10m	£ 10m
Risk weighted assets ^a	£ 0.4bn	£ 1.1bn	£ 1.9bn
Note			

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

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Corporate sustainability

Sustainability and Barclays

At Barclays, we recognise that our sustainability values have an increased importance in the current financial climate. We are focused on: supporting our existing customers; being a bank that welcomes all potential customers; being an equal opportunity employer; our commitment to climate change; and ensuring we behave at all times as a responsible global citizen.

Doing this effectively helps us to reduce our risk and positions us well to capture commercial opportunities arising from the global transition towards a more sustainable future.

Developing our strategic framework

To measure our success in integrating sustainability into our business we have addressed the broad sustainability agenda through five key themes:

Customers and Clients

Inclusive Banking

Diversity and Our People

Environment

Responsible Global Citizenship

These themes resonate in our businesses, provide a platform for action, and give us a clear purpose and direction. Implementation is driven by actionable goals and robust performance measurement.

We manage and report our progress on the sustainability topics of most significance to our business and our stakeholders. We have determined this in part through:

our research initiatives and partnerships

dialogue with our stakeholders including customers, investors governments, non-governmental organisations, consumer groups, and journalists across our markets globally

internal and external focus groups including hosting consumer roundtables in the UK. Stakeholder insight and feedback on our sustainability agenda is vital, and encourages us to be open and transparent about the issues our stakeholders are concerned about.

Measuring progress

We aim to measure and monitor our sustainability progress both internally and externally. In 2008, we developed a framework for regular progress reports to the Group Executive Committee and the Board. It provides consistent tracking of our progress by sustainability theme and Business Unit.

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Barclays participates in a number of external indices, forums and initiatives which help to measure our progress including the Dow Jones Sustainability Index and FTSE4Good. In 2008, Barclays ranked joint first in the Carbon Disclosure Project's Leadership Index.

Customers and clients

In 2008, amid widespread uncertainty in financial markets and the wider global economy, it was vital to stay close to our clients and customers, who we recognise have a choice where they bank.

During the year, we worked to help our customers and clients cope with the challenging economic circumstances. Our record of lending responsibly has allowed us to continue mortgage lending in the UK, increasing our share of net new lending from 8% in 2007 to 36% in 2008.

We increased lending to UK SMEs by 6% to a total of £15bn. We also provided support to small businesses in the UK and South Africa and also made significant investment in the Barclays Business Support team which is dedicated to helping business customers in financial difficulty in the UK.

In addition, we have committed to lend an additional 10% (£1.5bn) to SMEs in the UK by the end of 2009. We continue to act on customer and client feedback to develop appropriate products and services to meet different needs.

Inclusive banking

For Barclays, inclusive banking means helping those who are excluded from the financial system to join and benefit from it.

We have dedicated accounts for people on low incomes across several countries in Africa. In 2008, these basic accounts made up 27% of our total current and savings accounts in Africa.

Absa, which has 10 million customers, is now the market leader for low income customers in South Africa – those earning less than R3,000 (£200) a month – with a market share of 33%.

We continued to support better access to financial products and services in the UK through our basic-level Cash Card Account, which is now held by more than 730,000 customers, and through partnerships with community finance organisations and charities which help excluded and vulnerable people in society.

In March 2008, Barclays launched the Hello Money service in India which allows customers to carry out banking transactions easily and securely over their mobile phones. Hello Money is already making a significant impact in giving access to financial services for people in India's rural areas.

Diversity and Our People

Barclays aims to provide a safe working environment in which employees are treated fairly and with respect, encouraged to develop, and rewarded on the basis of individual performance.

In 2008, Antony Jenkins, CEO Barclaycard was appointed Diversity and Inclusion Executive Champion to drive our diversity agenda across Global Retail and Commercial Banking. Initiatives in 2008 included establishing the requirement that every senior executive has a diversity objective linked to their performance goals.

In 2009, we intend to extend our Women's Leadership Programme, aimed at developing talented women employees, across all 15 countries in our GRCB Emerging Markets business with secondments of between 3 and 12 months.

Environment

We seek to minimise our environmental impact through reducing Barclays energy, water and waste footprints and managing the risks and opportunities associated with climate change.

Businesses have a vital role to play in managing and mitigating climate change. At Barclays, we recognise that we have an impact on the environment both directly through our own operations, and indirectly through our supply chain and corporate lending. We monitor and manage both sets of impacts.

In 2008, Barclays set environmental targets that apply to global operations. We will measure our performance over three years from 2009 to 2011 against a 2008 baseline.

The targets are to reduce:

CO₂ emissions by 6% per employee, achieving an average 2% reduction per year

energy use from buildings (excluding data centres) by 6% per employee, achieving an average 2% reduction per year

water use by 6% per employee, achieving an average 2% reduction per year.

We made our UK and European operations carbon neutral by offsetting emissions from energy use and travel. We are on track to make our global banking operations carbon neutral by the end of 2009.

Environmental and social risk

The majority of the environmental and social risks associated with our business are indirect. These impacts arise through business relationships, including those with our supply chain and those with our clients through financing activities.

We apply our Environmental and Social Impact Assessment policy (ESIA) to projects that we are considering financing. In 2008, a total of 31 project finance deals were assessed against the Equator Principles, a set of social and environmental criteria adopted by many banks. In addition, the Environmental Risk Management team assessed 229 non-project finance transactions.

We continue to assess our environmental and social impact beyond the project finance remit of the Equator Principles and are working to include climate change and human rights considerations in these assessments.

Responsible global citizenship

We acknowledge and accept that we have an obligation to be a responsible global citizen, and our sustainability efforts help us to achieve this. This means managing our business and supply chain to improve our social, economic and environmental impact, and doing business ethically.

Community Investment

Investing in the communities in which we operate is an integral part of Barclays sustainability strategy. During 2008, we maintained our levels of investment in communities despite the challenging conditions. We invested £52.2m and more than 57,000 colleagues in 31 countries were involved in volunteering, fundraising and regular giving. In addition, Barclays launched a three-year global community investment partnership with UNICEF, the leading children's organisation, in which we committed to invest £5m.

Human Rights and Barclays

In June 2008, we refined our statement on human rights (first introduced in 2004) which outlines the approach we take to human rights through our three main areas of impact – as an employer, as a provider of financial services to customers and clients, and as a purchaser of goods and services from suppliers. We aim to operate in accordance with the:

Universal Declaration of Human Rights

OECD Guidelines for Multinational Enterprises

International Labour Organisation's Core Conventions.

Barclays is active in developing the global business and human rights agenda through our membership of two organisations – the Business Leaders Initiative on Human Rights, launched in 2003 of which we are a founder member, and United Nations Environment Programme Finance Initiative (UNEP FI), for which we co-chair the Human Rights Workstream.

We extended the guidance provided to our employees on human rights in 2008 to include access to an online tool for front-line lending managers, which assists in identifying and mitigating human rights risks.

Supply chain

We work closely with our suppliers to help them manage their own impacts and ensure they share our commitment to sustainability. Our Group-wide sourcing process includes criteria for measuring and assessing our suppliers' sustainability. Tenders for supplies deemed to have a potentially high sustainability impact or risk, such as print or corporate wear, require suppliers to complete our sustainable supply chain questionnaire on their sustainability impact, policies and management processes.

During 2008, we continued to engage directly with our suppliers on sustainability, both as part of our ongoing supplier relationships and to address specific issues such as reducing their carbon emissions.

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Our people

Barclays aims to provide a safe working environment in which employees are treated fairly and with respect, encouraged to develop, and rewarded on the basis of individual performance. We are committed to ensuring equality to all employees on the basis of merit. Discrimination, bullying or harassment of any kind is not tolerated.

Our Guiding Principles set out the values that govern how we act. They are:

- | | |
|-----------------------------------|--|
| i) Winning together | Doing what's right for Barclays, our teams and our colleagues, to achieve collective and individual success. |
| ii) Best people | Developing and upgrading talented colleagues and differentiating rewards
Doing what's needed to ensure a leading position in the global financial services industry. |
| iii) Customer and
client focus | Understanding what our customers and client focus clients want and need

And then serving them brilliantly. |
| iv) Pioneering | Driving new ideas, especially those that make us profitable and improve control
Improving operational excellence
Adding diverse skills to stimulate new perspectives and bold steps |
| v) Trusted | Being trusted is the bedrock of a successful bank
Acting with the highest levels of integrity to retain the trust of our customers, external stakeholders and our colleagues
Taking full responsibility for our decisions and actions. |

An international picture

	2008	2007 ^a
FTE by world region		
UK	60,700	61,900
Africa and Middle East	55,700	51,748
Continental Europe	13,400	9,750
Americas	15,700	6,413
Asia Pacific	10,800	5,089
Total	156,300	134,900
FTE by business unit		
UK Retail Banking	30,400	30,700
Barclays Commercial Bank	9,800	9,200
Barclaycard	9,600	8,900
GRCB Western Europe	10,900	8,800
GRCB Emerging Markets	22,700	13,900
GRCB Absa	36,800	35,800
Barclays Capital	23,100	16,200
Barclays Global Investors	3,700	3,400
Barclays Wealth	7,900	6,900
Head office and other operations	1,400	1,100
Total	156,300	134,900
Global employment statistics		
FTE	156,300	134,900

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Total employee headcount	161,000	141,885
Percentage of female employees	53.1%	56.3%
Percentage of female senior executives	15.2%	13.7%
Percentage of female senior managers	24.6%	20.6%
Percentage working part time	8.5%	12.4%
Turnover rate	20.9%	18.3%
Resignation rate	12.1%	12.3%
Sickness absence rate ^b	2.3%	3.0%

Note

a 2007 UK data includes 1,000 BGI employees.

b Excludes Group Centre, BGI and Barclays Capital.

c Excludes BGI and Barclays Capital.

d Excludes BGI.

Global governance

Barclays manages its people through these Guiding Principles in a devolved manner. To maintain the right balance between overall control and effective local decision making we have established governance frameworks which are overseen by the Group Operational Committee, and compliance with them is monitored by the Group Human Resources Risk Committee.

Employee relations

Barclays recognises and works constructively with 30 employee representative organisations throughout the world. Employee consultations on significant operational changes are carried out in accordance with local legislation.

Our employee opinion surveys

Barclays businesses conduct employee opinion surveys, to suit the needs of each business. We benchmark the findings against other global financial services organisations and high-performing organisations, and create action plans to address any areas of concern.

Occupational health and safety

Barclays manages health and safety at a local level under the requirements of the health and safety governance framework. Key data on health and safety is reported regularly to the Board HR and Remuneration Committee.

Training and educating our people

Developing both existing and new employees is key to our future prosperity. We undertake this through formal and informal training and education, including mandatory training required by regulatory bodies and detailed on-the-job training and development.

UK employees

2008

2007 ^a

UK employment statistics

FTE	60,700	61,900
Average length of service (years)	9.2	9.7
Percentage working part time	16.1%	16.8%
Sickness absence rate ^c	3.1%	3.0%
Turnover rate	19.3%	16.6%
Resignation rate	12.2%	11.1%
Women in Barclays		
Percentage of all employees	56.1%	58.0%
Percentage of management grades	28.0%	28.4%
Percentage of senior executives	14.6%	13.0%
Ethnic minorities in Barclays		
Percentage of all employees	12.3%	12.3%
Percentage of management grades	11.5%	10.0%
Percentage of senior executives	8.0%	6.6%
Disabled employees in Barclays		
Percentage of all employees ^d	2.0%	3.4%
Age profile		
Employees under 25	15.5%	16.5%
Employees aged 25-29	18.5%	17.0%
Employees aged 30-49	55.8%	54.2%
Employees aged 50+	10.2%	10.3%
Pensions		
Barclays UK Retirement Fund active members	58,316	53,473
Current pensioners	50,499	48,607

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Risk factors

The following information sets forth certain risk factors that the Group believes could cause its actual future results to differ materially from expected results. However, other factors could also adversely affect the Group results and so the factors discussed in this report should not be considered to be a complete set of all potential risks and uncertainties.

Business conditions and general economy

The profitability of Barclays businesses could be adversely affected by the worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the United States, Spain or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, foreign exchange risk, creditworthiness of counterparties, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the Group's customers' activity levels and financial position. For example:

the current economic downturn or significantly higher interest rates or continued lack of credit availability to the Group's customers could adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the Group's customers and counterparties would be unable to meet their obligations;

a market downturn or further worsening of the economy could cause the Group to incur further mark to market losses in its trading portfolios;

a further decline in the value of Sterling relative to other currencies could increase risk weighted assets and therefore the capital requirements of the Group;

a further market downturn could reduce the fees the Group earns for managing assets. For example, a downturn in trading markets could affect the flows of assets under management; and

a further market downturn would be likely to lead to a decline in the volume of transactions that the Group executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions and interest.

Current market volatility and recent market developments

The global financial system has been experiencing difficulties since August 2007 and financial markets have deteriorated dramatically since the bankruptcy filing of Lehman Brothers in September 2008. Despite measures taken by the United Kingdom and United States governments and the European Central Bank and other central banks to stabilise the financial markets, the volatility and disruption of the capital and credit markets have continued. Together with the significant declines in the property markets in the United Kingdom, the United States, Spain and other countries, these events over the past two years have contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major retail, commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions.

While the capital and credit markets have been experiencing difficulties for some time, the volatility and disruption reached unprecedented levels in the final months of 2008 and economic activity started to contract in many of the economies in which the Group operates. These conditions have produced downward pressure on stock prices and credit capacity for certain issuers. The resulting lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could continue to materially and adversely affect the Group's business, financial condition and results of operations.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances. However, credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

In a recessionary environment, such as that ongoing in the United Kingdom, the United States and other economies, credit risk increases. Credit risk may also be manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the assets, or where the counterparty may be the country itself.

Another form of credit risk is settlement risk, which is the possibility that the Group may pay a counterparty but fail to receive the corresponding settlement in return. The Group is exposed to many different industries and counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is particularly significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and many other activities and relationships. These counterparties include brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. Many of these relationships expose the Group to credit risk in the event of default of a counterparty and to systemic risk affecting its counterparties. Where the Group holds collateral against counterparty exposures, it may not be able to realise it or liquidate it at prices sufficient to cover the full exposures. Many of the hedging and other risk management strategies utilised by the Group also involve transactions with financial services counterparties. The failure of these counterparties to settle or the perceived weakness of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies.

The Group's credit risk governance structure, management and measurement methodologies, together with an analysis of exposures to credit risk is detailed in the Credit risk management section on page 80 and the Credit Risk note to the financial statements on page 264.

Barclays Capital credit market exposures

An analysis of Barclays Capital's credit market exposures is detailed on pages 106 to 118.

Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. Market risk has increased due to the volatility of the current financial markets.

The main market risk arises from trading activities. Barclays is also exposed to market risk through non-traded interest rate risk and the pension fund.

The Group's market risk governance structure, management and measurement methodologies, together with an analysis of exposures to both traded and non-traded market risk is detailed in the Market risk management section on page 119 and the Market Risk note to the financial statements on page 278. Pension risk is analysed in note 30 on page 234.

The Group's future earnings could be affected by depressed asset valuations resulting from a deterioration in market conditions. Financial markets are sometimes subject to stress conditions where steep falls in asset values can occur, as demonstrated by recent events affecting asset backed CDOs and the US sub-prime residential mortgage market and which may occur in other asset classes during an economic downturn. Severe market events are difficult to predict and, if they continue to occur, could result in the Group incurring additional losses.

In 2007 and in 2008, the Group recorded material net losses on certain credit market exposures, including ABS CDO Super Senior exposures. As market conditions change, the fair value of these exposures could fall further and result in additional losses or impairment charges, which could have a material adverse effect on the Group's earnings. Such losses or impairment charges could derive from: a decline in the value of exposures; a decline in the ability of counterparties, including monoline insurers, to meet their obligations as they fall due; or the ineffectiveness of hedging and other risk management strategies in circumstances of severe stress.

Liquidity risk

This is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in balance sheet and sales

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of assets, or potentially an inability to fulfil lending commitments. This risk is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters. The Group's liquidity risk management has several components:

intra-day monitoring to maintain sufficient liquidity to meet all settlement obligations;

mismatch limits to control expected cash flows from maturing assets and liabilities;

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Risk management

Risk factors

monitoring of undrawn lending commitments, overdrafts and contingent liabilities; and

diversification of liquidity sources by geography and provider.

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

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

The Group's liquidity risk management and measurement methodologies are detailed in the [Liquidity Risk Management](#) section on page 125 and the [Liquidity Risk](#) note to the financial statements on page 282.

Capital risk

Capital risk is the risk that the Group has insufficient capital resources to:

meet minimum regulatory capital requirements in the UK and in other jurisdictions such as the United States and South Africa where regulated activities are undertaken. The Group's authority to operate as a bank is dependent upon the maintenance of adequate capital resources;

support its credit rating. A weaker credit rating would increase the Group's cost of funds;

support its growth and strategic options.

During periods of market dislocation, increasing the Group's capital resources may prove more difficult or costly. Regulators have also recently increased the Group's capital targets and amended the way in which capital targets are calculated and may further do so in future. This would constrain the Group's planned activities and contribute to adverse impacts on the Group's earnings.

The Group's capital management objectives and processes are detailed in the [Capital risk management](#) section on page 128.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk include operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

The Group's operational risk management and measurement methodologies are detailed in the [Operational risk management](#) section on page 131.

Financial crime risk

Financial crime risk is a category of operational risk. It arises from the risk that the Group might fail to comply with financial crime legislation and industry laws on anti-money laundering or might suffer losses as a result of internal or external fraud, or might fail to ensure the security of personnel, physical premises and the Group's assets.

The Group's financial crime management and processes are detailed in the [Financial crime risk management](#) section on page 134.

Regulatory compliance risk

Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial service industry. Non-compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

In addition, the Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union (EU), the United States, South Africa and elsewhere. All these are subject to change, particularly in the current market environment where recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in the United Kingdom, the United States and elsewhere are implementing measures to increase regulatory control in their respective banking sectors, including by imposing enhanced capital requirements or by imposing conditions on direct capital injections and funding. Any future regulatory changes may potentially restrict the Group's operations, mandate certain lending activity and impose other compliance costs. It is uncertain how the more rigorous regulatory climate will impact financial institutions, including the Group.

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Areas where changes could have an impact include:

the monetary, interest rate and other policies of central banks and regulatory authorities;

general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;

general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;

changes in competition and pricing environments;

further developments in the financial reporting environment;

differentiation amongst financial institutions by governments with respect to the extension of guarantees to customer deposits and the terms attaching to those guarantees; and

implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes.

Two specific matters that directly impact the Group are the Banking Act 2009 and the Financial Services Compensation Scheme:

Banking Act 2009

On 21st February 2009, the Banking Act 2009 came into force which provides a permanent regime to allow the FSA, the UK Treasury and the Bank of England (the Tripartite Authorities) to resolve failing banks in the UK. The Banking Act aims to balance the need to protect depositors and prevent systemic failure with the potentially adverse consequences that using powers to deal with those events could have on private law rights, and, as a consequence, wider markets and investor confidence.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or Bank of England entity, all or some of the securities issued by a bank. The share transfer order can extend to a wide range of securities including shares and bonds issued by a UK Bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached. Power also exists to over-ride any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of both share transfer orders and property appropriation. In the case of share transfer orders any compensation

will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer.

The Banking Act also vests power in the Bank of England to over-ride, vary or impose contractual obligations between a UK bank or its holding company and its former group undertakings (as defined in the Banking Act), for reasonable consideration, in order to enable any transferee or successor bank of the UK bank to operate effectively. There is also power for the Treasury to amend the law (save for a provision made by or under the Banking Act) by order for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (the FSCS) was created under the Financial Services and Markets Act 2000 and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the

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associated costs to the Group may have a material impact on the Group's results of operations and financial condition.

Further details of specific matters that impact the Group are included in the "Competition and regulatory matters" note to the financial statements on page 246.

Legal risk

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:

the Group's business may not be conducted in accordance with applicable laws around the world;

contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;

the intellectual property of the Group (such as its trade names) may not be adequately protected; and

the Group may be liable for damages to third parties harmed by the conduct of its business. The Group faces risk where legal proceedings are brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

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Risk management

Risk factors

Defending legal proceedings can be expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Group is successful. Although the Group has processes and controls to manage legal risks, failure to manage these risks could impact the Group adversely, both financially and by reputation.

Further details of the Group's legal proceedings are included in the [Legal proceedings](#) note to the financial statements on page 245.

Insurance risk

Insurance risk is the risk that the Group will have to make higher than anticipated payments to settle claims arising from its long-term and short-term insurance businesses.

Further details of the Group's insurance assets and liabilities, including a sensitivity analysis of insurance contract liabilities, are included in the [Insurance assets and liabilities](#) note to the financial statements on page 226.

Business risk

The Group devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, supported by substantial expenditure to generate growth in customer business. If these strategic plans are not delivered as anticipated, the Group's earnings could grow more slowly or decline. In addition, potential sources of business risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies.

Competition

The global financial services markets in which the Group operates are highly competitive. Innovative competition for corporate, institutional and retail clients and customers comes both from incumbent players and a steady stream of new market entrants, as well as recent consolidation among banking institutions in the United Kingdom, the United States and throughout Europe. The landscape is expected to remain highly competitive in all areas, which could adversely affect the Group's profitability if the Group fails to retain and attract clients and customers.

Tax risk

The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at an EU level. A number of double taxation agreements entered between two countries also impact on the taxation of the Group. Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risk:

tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Executive Committee, Group Finance Director and the Board Risk Committee;

the tax charge is also reviewed by the Board Audit Committee;

the tax risks of proposed transactions or new areas of business are fully considered before proceeding;

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the Group takes appropriate advice from reputable professional firms;

the Group employs high-quality tax professionals and provides ongoing technical training;

the tax professionals understand and work closely with the different areas of the business;

the Group uses effective, well-documented and controlled processes to ensure compliance with tax disclosure and filing obligations; and

where disputes arise with tax authorities with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving the matter with the tax authority in an open and constructive manner.

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Risk management

Barclays approach to risk management

This risk section outlines Barclays approach to risk management, as exemplified by the application of the Group's Principal Risks Policy, determination of its Risk Appetite and governance around its Risk Methodologies, which cover its processes, measurement techniques and controls. In addition, we set out summary information and disclosure on our portfolios and positions.

Barclays approach to risk management involves a number of fundamental elements that drive our processes across the Group:

The [Principal Risks Policy](#) covers the Group's main risk types, assigning responsibility for the management of specific risks, and setting out the requirements for control frameworks for all of the risk types. The individual control frameworks are reinforced by a robust system of review and challenge, and a governance process of aggregation and broad review by businesses and risk across the Group (page 78).

The Group's [Risk Appetite](#) sets out the level of risk that the Board is willing to take in pursuit of its business objectives. This is expressed as the Group's appetite for earnings volatility across all businesses from credit, market, and operational risk. It is calibrated against our broad financial targets, including income and impairment targets, dividend coverage and capital levels. It is prepared each year as part of the Group's Medium-Term Planning process, and combines a top-down view of the Group's risk capacity with a bottom-up view of the risk profile requested and recommended by each business. This entails making business plan adjustments as necessary to ensure that our Medium-Term Plan creates a risk profile that meets our Risk Appetite (page 78).

Barclays [Risk Methodologies](#) include systems that enable the Group to measure, aggregate and report risk for internal and regulatory purposes. As an example, our credit grading models produce Internal Ratings through internally derived estimates of default probabilities. These measurements are used by management in an extensive range of decisions, from credit grading, pricing and approval to portfolio management, economic capital allocation and capital adequacy processes (page 79).

Risk management is a fundamental part of Barclays business activity and an essential component of its planning process. To keep risk management at the centre of the executive agenda, it is embedded in the everyday management of the business.

Barclays ensures that it has the functional capacity to manage the risk in new and existing businesses. At a strategic level, our risk management objectives are:

To identify the Group's material risks and ensure that business profile and plans are consistent with risk appetite.

To optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures.

To ensure that business growth plans are properly supported by effective risk infrastructure.

To manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.

To help executives improve the control and co-ordination of risk taking across the business. In pursuit of these objectives, Group Risk breaks down risk management into five discrete processes: direct, assess, control, report, and manage/challenge (see panel below).

Process	Activity
Direct	<p>Understand the principal risks to achieving Group strategy.</p> <p>Establish Risk Appetite.</p> <p>Establish and communicate the risk management framework including responsibilities, authorities and key controls.</p>
Assess	<p>Establish the process for identifying and analysing business-level risks.</p> <p>Agree and implement measurement and reporting standards and methodologies.</p>
Control	<p>Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.</p> <p>Monitor the operation of the controls and adherence to risk direction and limits.</p> <p>Provide early warning of control or appetite breaches.</p> <p>Ensure that risk management practices and conditions are appropriate for the business environment.</p>
Report	<p>Interpret and report on risk exposures, concentrations and risk-taking outcomes.</p> <p>Interpret and report on sensitivities and Key Risk Indicators.</p> <p>Communicate with external parties.</p>
Manage and Challenge	<p>Review and challenge all aspects of the Group's risk profile.</p> <p>Assess new risk-return opportunities.</p> <p>Advise on optimising the Group's risk profile.</p> <p>Review and challenge risk management practices.</p>

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Risk management

Barclays approach to risk management

Organisation and structure

Responsibility for risk management resides at all levels within the Group, from the Executive down through the organisation to each business manager and risk specialist. Barclays distributes these responsibilities so that risk/return decisions are taken at the most appropriate level; as close as possible to the business, and subject to robust and effective review and challenge.

Every business manager is accountable for managing risk in his or her business area; they must understand and control the key risks inherent in the business undertaken. Each business area also employs risk specialists to provide an independent control function and to support the development of a strong risk management environment. This functional approach to risk management is built on formal control processes that rely on individual responsibility and independent oversight, as well as challenge through peer reviews.

The Board approves Risk Appetite and the Board Risk Committee monitors the Group's risk profile against this agreed appetite. Business Heads are responsible for the identification and management of risk in their businesses. The Group Risk Director, under delegated authority from the Group Chief Executive and Group Finance Director, has responsibility for ensuring effective risk management and control.

The Committees shown below receive regular and comprehensive reports. The Board Risk Committee receives quarterly reports on the Group's risk profile and forward risk trends (for further information on the membership and activities of the Board Risk Committee, see page 166). The Board Audit Committee receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. See page 163 for additional details on the membership and activities of the Board Audit Committee. Both Board and Audit Committees also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both Committees are reported to the full Board, which also receives a concise quarterly risk report. Internal Audit supports both Committees by attendance and/or the provision of quarterly reports resulting from its work on governance, risk and control issues of significance. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit.

An assessment by external advisers is also carried out periodically.

In addition to the Committees shown in the chart, there is a Brand and Reputation Committee reviewing emerging issues with potentially significant reputational impact.

Governance structure at Group level

The Group Risk Director has overall day to day accountability for risk management. Reporting to the Group Risk Director are Group Risk Heads for Retail Credit Risk, Wholesale Credit Risk, Market Risk, Operational Risk, Financial Crime Risk and Capital Demand. Along with their teams, they are responsible for establishing a risk control framework and risk oversight at Group level. This core team liaises with each business as part of the monitoring and management processes.

Each business has an embedded risk management team reporting to a Business Risk Director who reports to the Group Risk Director. The risk management teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses.

Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles and for implementing appropriate controls. The functional coverage of risk responsibilities is illustrated in the diagram below.

Internal Audit is responsible for the independent review of risk management and the control environment.

To support risk taking, Barclays has continued to strengthen the independent and specialised risk teams in each of its businesses, supported by matching teams at Group level, acting in both a consultancy and oversight capacity. As a prerequisite to business growth plans, it has made the recruitment, development and retention of risk professionals a priority.

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Risk management

Barclays approach to risk management

Key elements

Principal Risks

The Board is responsible for the Group Internal Control and Assurance Framework (GICAF). As part of the GICAF, it approves the Principal Risks Policy, which sets out responsibilities for the management of the Group s most significant risk exposures. The Board oversees the operating effectiveness of the Principal Risks Policy through the regular review of reports on the Group s material risk exposures and controls.

The Group s risk categorisation comprises 17 risk categories (Level 1), 13 of which are known as Principal Risks. Each Principal Risk is owned by a senior individual at the Group level, who liaises with Principal Risk owners within Business Units and Group Centre Functions. The 17 risk categories are shown in the panel below.

Each Group Principal Risk Owner (GPRO) is responsible for setting minimum control requirements for their risk and for overseeing the risk and control performance across the Group. Group control requirements (e.g. Group Policies/Processes/Committee oversight) for each of these risks are defined, in consultation with Business Units, and communicated and maintained by the GPRO.

Implementation of the control requirements for each Principal Risk provides each Business Unit or Group Centre Function with the foundation of its system of internal control for that particular risk. This will usually be built upon in more detail, according to the circumstances of each Business Unit, to provide a complete and appropriate system of internal control.

The specific controls for individual Principal Risks are supplemented by generic risk management requirements. These requirements are articulated as the Group s Operational Risk Management Framework (see page 130) and include policies on:

Internal Risk Event Identification and Reporting

Risk and Control Assessment

Key Indicators

Key Risk Scenarios

Business Unit and Group Centre Function Heads are responsible for maintaining ongoing assurance that the controls they have put in place to manage the risks to their business objectives are operating effectively. They are required to undertake a formal six-monthly review of assurance information. These reviews support the regulatory requirement for the Group to make a statement about its system of internal control (the Turnbull statement), in the Annual Report and Accounts.

Risk Appetite

Risk Appetite is the level of risk the Board of Barclays chooses to take in pursuit of its strategic objectives, recognising a range of possible outcomes as business plans are implemented. Barclays framework, approved by the Board Risk Committee, combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile requested and recommended by each business area.

To determine this acceptable level of risk, management estimates the potential earnings volatility from different businesses under various scenarios.

This annual setting of Risk Appetite considers the Bank s ability to support business growth, desired dividend payout levels and capital ratio targets. If the projections entail too high a level of risk, management will challenge each area to find new ways to rebalance the business mix to incur less

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risk on a diversified basis. Performance against Risk Appetite is measured and reported to the Executive and Board regularly throughout the year. Barclays believes that this framework enables it to:

Improve risk and return characteristics across the business

Meet growth targets within an overall risk appetite and protect the Group's performance

Improve management confidence and debate regarding our risk profile

Improve executive management control and co-ordination of risk-taking across businesses

Identify unused risk capacity, and thus highlight profitable opportunities.

The Risk Appetite framework considers credit, market and operational risk and is applied using two perspectives: financial volatility and mandate and scale.

Financial Volatility is the level of potential deviation from expected financial performance that Barclays is prepared to sustain at relevant points on the risk profile. It is established with reference to the strategic objectives and to the business plans of the Group, including the achievement of annual financial targets, payment of dividends, funding of capital growth and maintenance of acceptable capital ratios and our credit rating. The portfolio is analysed in this way at four representative levels:

Expected performance (including the average credit losses based on measurements over many years)

A level of loss that corresponds to moderate increases in market, credit or operational risk from expected levels

A more severe level of loss which is much less likely

An extreme but highly improbable level of loss which is used to determine the Group's economic capital.

These potentially larger but increasingly less likely levels of loss are illustrated in the Risk Appetite concepts chart below. The Mandate and Scale framework is a formal review and control of our business activities to ensure that they are within our mandate (i.e. aligned to the expectations of external stakeholders) and are of an appropriate scale (relative to the risk and reward of the underlying activities). Appropriate assurance is achieved by using limits and triggers to avoid concentrations and operational risks which could lead to unexpected losses of a scale that would result in a disproportionate fall in Barclays market capitalisation.

Taken as a whole, the Risk Appetite framework provides a basis for the allocation of risk capacity to each business. Since the level of loss at any given probability is dependent on the portfolio of exposures in each business, the statistical measurement for each key risk category gives the Group clearer sight and better control of risk-taking throughout the enterprise.

Risk Methodologies

Fundamental to the delivery of the Group's risk management objectives are a series of risk methodologies that allow it to measure, model, price, stress, aggregate, report and mitigate the risks that arise from its activities. Many of the most important processes relate to the internal ratings used in granting credit and are discussed separately on page 82. The specific methodologies used to manage market risk, liquidity risk, capital risk and operational risk are also discussed in their corresponding sections. At a more general level, the Group's approach to risk management can be illustrated through its use of stress testing and the controls around model governance.

Stress testing

As part of the annual stress testing process, Barclays estimates the impact of a severe economic downturn on the projected demand and supply of capital. This process enables the Group to assess whether it could meet its minimum regulatory capital requirements throughout a severe recession. The Risk Appetite numbers are validated by estimating the Group sensitivity to adverse changes in the business environment and to include operational events that impact the Group as a whole using stress testing and scenario analysis. For instance, changes in certain macroeconomic variables represent environmental stresses which may reveal systemic credit and market risk sensitivities in our retail and wholesale portfolios.

The recession scenarios considered incorporate changes in macroeconomic variables, including:

Weaker GDP, employment or property prices

Lower equity prices

Interest rate curve shifts

Commodity price movements

Such Group-wide stress tests allow senior management to gain a better understanding of how portfolios are likely to react to changing economic and geopolitical conditions and how the Group can best prepare for and react to them. The stress test simulates the balance sheet and profit and loss effects of stresses across the Group, investigating the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the senior management process and the Risk Appetite framework. This process of analysis and senior management oversight also provides the basis for fulfilling the stress testing requirements of Basel II.

Group-wide stress testing is only one of a number of stress test analyses that are performed as part of the wider risk management process. Specific stress test analysis is used across all risk types to gain a better understanding of the risk profile and the potential effects of changes in external factors. These stress tests are performed at a range of different levels, from analysis covering specific stresses on individual sub-portfolios (e.g. the impact of higher unemployment on the US cards portfolio) to regularly assessed stress scenarios (such as the effect of a sudden rise in global interest rates on Barclays Capital's market exposures).

Model Governance

Barclays has a large number of models in place across the Group, covering all risk types. To minimise the risk of loss through model failure, a Group Model Risk Policy (GMRP) has been developed. This has been extensively reviewed and enhanced during the course of 2008.

The GMRP helps reduce the potential for model failure by setting minimum standards around the model development and implementation process. The Policy also sets the Group governance processes for all

models, which allows model risk to be monitored, and seeks to identify and escalate any potential problems at an early stage.

To help ensure that sufficient management time is spent on the more material models, each model is provided with a materiality rating. GMRP defines the materiality ranges for all model types. The materiality ranges are based on an assessment of the impact to the Group in the event of a model error. The materiality affects the approval and reporting level for each model, with the most material models being approved by the Executive Models Committee, a technical sub-committee of Group Executive Committee. Although final level of model sign-off will vary, depending on model

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materiality, the standards of model build, implementation, monitoring and maintenance do not change with the materiality level.

Documentation must be sufficiently detailed, to allow an expert to understand all appropriate aspects of model development. It must include a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), a description of any assumptions made, as well as details of where the model works well and areas that are known model weaknesses.

All models are subject to a validation and independent review process before the model can be signed-off for implementation. The model validation exercise must demonstrate that the model is fit for purpose and provides accurate estimates. The independent review process will also ensure that all aspects of the model development process have been performed in a suitable manner.

The initial sign-off process ensures that the model is technically fit for purpose as well as ensuring that the model satisfies the business requirements and all the relevant regulatory requirements. As detailed above, the process for model sign-off is based on materiality, with all of a business unit's models at least initially being approved in business-led committees, and Group involvement increasing as the models become more material.

Once implemented, all models within the Group are subject to an annual validation, to ensure that they are performing as expected, and that assumptions used in model development are still appropriate. In line with initial sign-off requirements, annual validations are also formally reviewed at the appropriate technical committee.

In addition to annual validation, models are subject to quarterly performance monitoring. Model performance monitoring ensures that deficiencies are identified early, and that remedial action can be taken before the deficiency becomes serious enough to affect the decision-making process. As part of this process, model owners set performance triggers and define appropriate actions for their models in the event of breaches.

Externally developed models are subject to the same governance standards as internal models, and must be initially approved for use following the validation and independent review process. External models are also subject to the same standards for ongoing monitoring and annual validation requirements.

Within Barclays Capital, where models are used to value positions within the trading book the positions are subject to regular independent price testing which covers all trading positions. Prices are compared to direct external market data where possible. When this is not possible, more analytic techniques are used, such as industry consensus pricing services. These services enable Barclays to anonymously compare structured products and model-input parameters with those of other banks engaged in the trading of the same financial products. The conclusions and any exceptions to this exercise are communicated to senior levels of business and infrastructure management.

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Risk management

Credit risk management

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group.

The granting of credit is one of the Group's major sources of income and, as its most significant risk, the Group dedicates considerable resources to controlling it. The importance of credit risk is illustrated by noting that almost two-thirds of risk-based economic capital is allocated to credit risk. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances.

Barclays is also exposed to other credit risks arising from its trading activities, including debt securities, derivatives, settlement balances with market counterparties and reverse repurchase loans.

In managing credit risk, the Group applies the five-step risk management process and internal control framework. Specific credit risk management objectives are:

To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio.

To control and plan the taking of credit risk, ensuring it is coherently priced across the business and avoiding undesirable concentrations.

To support strategic growth and decision-making based on sound credit risk management principles and a proactive approach to identifying and measuring new risks.

To ensure a robust framework for the creation, use and ongoing monitoring of the Group's credit risk measurement models.

To ensure that our balance sheet reflects the value of our assets in accordance with accounting principles. In the review of Barclays credit risk management that follows, we first explain how the Group meets its credit risk management objectives through its organisation, structure and governance, its measurement, reporting and system of internal ratings and its mechanisms for credit risk mitigation.

We then provide a summary of the Group's total assets, including the asset types which give rise to credit risk and counterparty credit risk, namely: loans and advances, debt securities and derivatives.

On pages 89 to 102, we set out a detailed analysis of the Group's loans and advances across a number of asset classes and businesses referencing significant portfolios and including summary measures of asset quality.

We next provide disclosures and analyses of the credit risk profiles of these asset categories, beginning with Barclays Capital's credit market exposures by asset class, covering current exposures, losses during 2008, sales and paydowns, foreign exchange movements and, where appropriate, details of collateral held, geographic spread, vintage and credit quality. These are given on pages 106 to 118.

Finally, additional analysis of debt securities and derivatives can be found on pages 103 and 104 to 105.

Risk management

Credit risk management

Organisation and structure

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans.

The credit risk management teams in each business are accountable to the Business Risk Directors in those businesses who, in turn, report to the heads of their businesses and also to the Risk Director. These credit risk management teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses. Examples include:

maximum exposure guidelines to limit the exposures to an individual customer or counterparty

country risk policies to specify risk appetite by country and avoid excessive concentration of credit risk in individual countries

policies to limit lending to certain industrial sectors

underwriting criteria for personal loans and maximum loan-to-value ratios for home loans

Within Group Risk, the Credit Risk function provides Group-wide direction of credit risk-taking. This functional team manages the resolution of all significant credit policy issues and runs the Credit Committee, which approves major credit decisions.

The principal Committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Group Wholesale Credit Risk Management Committee, the Group Retail Credit Risk Management Committee, the Risk Oversight

Committee and the Board Risk Committee. The Board Audit Committee also reviews the impairment allowance as part of financial reporting.

The Group Credit Risk Impairment Committee (GCRIC), on a semi-annual basis, obtains assurance on behalf of the Group that all businesses are recognising impairment in their portfolios accurately and promptly in their recommendations and in accordance with policy, accounting standards and established governance.

GCRIC exercises the authority of the Group Risk Director, as delegated by the Group Chief Executive, and is chaired by Barclays Credit Risk Director. GCRIC reviews the movements to impairment in the businesses, including those already agreed at Credit Committee, as well as Potential Credit Risk Loans, loan loss rates, asset quality metrics and Risk Tendency.

These committees are supported by a number of Group policies including:

Group Retail and Wholesale Impairment and Provisioning Policies

Group Retail and Wholesale Expected Loss Policies

Group Model Policy

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GCRIC makes twice-yearly recommendations to the Board Audit Committee on the adequacy of Group impairment allowances. Impairment allowances are reviewed relative to the risk in the portfolio, business and economic trends, current policies and methodologies, and our position against peer banks.

GCRIC has delegated the detailed review of loan impairment in the businesses to the Retail and Wholesale Credit Risk Management Committees.

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Risk management

Credit risk management

Measurement, reporting and internal ratings

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Group is exposed, from the level of individual facilities up to the total portfolio. The key building blocks in this quantitative assessment are:

Probability of default (PD)

Exposure in the event of default (EAD)

Loss given default (LGD)

Barclays first began to use internal estimates of PD in its main businesses in the 1990s. Internally derived estimates for PD, EAD and LGD have since been used in our major risk decision-making processes, enabling the application of coherent risk measurement across all credit exposures, retail and wholesale.

With the advent of the Basel II accord on banking, Barclays has been given permission to use internal rating models as an input to its regulatory capital calculations. In preparation, Barclays spent considerable time developing and upgrading a number of such models across the Group, moving towards compliance with the Basel II advanced internal ratings based approach. As part of this process, all Basel credit risk models have been assessed against the Basel II minimum requirements prior to model sign-off to ensure that they are fit to be used for regulatory purposes.

Applications of internal ratings

The three components described above – the PD, EAD and LGD – are building blocks used in a variety of applications that measure credit risk across the entire portfolio. These parameters can be calculated incorporating different aspects of the credit cycle into the estimates:

PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12 month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months.

LGD and EAD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual (BAU) measures, reflecting best modelled behaviour under actual conditions.

These parameters, in suitable combination, are used in a wide range of credit risk measurement and management and as our understanding and experience have developed, we have extended the use and sophistication of internal ratings into the following:

Credit Approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and some retail mortgage portfolios, PD models are used to direct applications to different credit sanctioning levels, so that credit risks are reviewed at appropriate levels.

Credit Grading: originally introduced in the early 1990s to provide a common measure of risk across the Group using an eight point rating scale; wholesale credit grading now employs a 21 point scale of default probabilities.

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Risk-Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.

Risk Appetite: measures of expected loss and the potential volatility of loss are used in the Group's Risk Appetite framework (see page 78).

IAS 39: many of our collective impairment estimates incorporate the use of our PD and LGD models, adjusted as necessary.

Collections and Recoveries: model outputs are frequently used to segment portfolios allowing for suitably prioritised collections and recoveries strategies in retail portfolios.

Economic capital (EC) allocation: most EC calculations use the same PD and EAD inputs as the regulatory capital (RC) process. The process also uses the same underlying LGD model outputs as the RC calculation, but does not incorporate the same economic downturn adjustment used in RC calculations.

Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as the business performance, Risk Appetite and consumption of EC.

Calculation of internal ratings

To calculate [probability of default](#) (PD), Barclays assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency ratings, and for wholesale assets market information such as credit spreads. For smaller credits, a single source may suffice such as the result from an internal rating model. Barclays recognises the need for

two different expressions of PD depending on the purpose for which it is used. For the purposes of calculating regulatory and economic capital, long-run average through-the-cycle PDs are required. However, for the purposes of pricing, PDs should represent the best estimate of probability of default, typically in the next 12 months, dependent on the current position in the credit cycle. Hence, point-in-time PDs are also required.

Each PD model outputs a point-in-time (PIT), through-the-cycle (TTC) or a hybrid, e.g. a 50:50 blend, default estimate. Conversion techniques appropriate to the portfolio are then applied to calculate both PIT and TTC estimates. Industry and location of the counterparty and an understanding of the current and long-term credit conditions are considered in deriving the appropriate conversion. Two ratings are therefore recorded for each client, the PIT and the TTC estimates.

Barclays internal rating system also differentiates between wholesale and retail customers. For wholesale portfolios, the rating system is constructed to ensure that each client receives the same rating independent of the part of the business with which they are dealing. To achieve this, a model hierarchy is adopted which requires users to adopt a specific approach to rating each counterparty depending upon the nature of the business and its location.

A range of methods is approved for estimating wholesale counterparty PDs. These include bespoke grading models developed within the Barclays Group (Internal Models), vendor models such as MKMV Credit Edge and RiskCalc, and a conversion of external alphabet ratings from either S&P, Moody's or Fitch. Retail models, especially those used for capital purposes, are almost exclusively built internally using Barclays data, although in some cases bureau models may be used in conjunction with these models. In addition, in some low data/low default environments external developments may be utilised for decision-making purposes.

A key element of the Barclays Wholesale framework is the probability of default distribution, which maps PDs into internal grades both for PIT (default grades) and TTC (TTC band) purposes. This has been developed to record differences in the probability of default risk at meaningful levels throughout the risk range. In contrast to wholesale businesses, retail areas do not bucket exposures into generic grades for account management purposes (although they may be used for reporting purposes). Instead, accounts are managed either at a granular level or based on bespoke segmentations.

Exposure at default (EAD) represents the expected level of usage of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal,

Barclays probability of default grades (wholesale)

DG/TTC Band	Default Probability		
	>=Min	Mid	<Max
1	0.00%	0.010%	0.02%
2	0.02%	0.025%	0.03%
3	0.03%	0.040%	0.05%
4	0.05%	0.075%	0.10%
5	0.10%	0.125%	0.15%
6	0.15%	0.175%	0.20%
7	0.20%	0.225%	0.25%
8	0.25%	0.275%	0.30%
9	0.30%	0.350%	0.40%
10	0.40%	0.450%	0.50%
11	0.50%	0.550%	0.60%
12	0.60%	0.900%	1.20%
13	1.20%	1.375%	1.55%
14	1.55%	1.850%	2.15%
15	2.15%	2.600%	3.05%
16	3.05%	3.750%	4.45%
17	4.45%	5.400%	6.35%
18	6.35%	7.500%	8.65%
19	8.65%	10.000%	11.35%
20	11.35%	15.000%	18.65%
21	18.65%	30.000%	100.00%

so that exposure is typically less than the approved loan limit. When the Group evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average usage of their facilities as they approach

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default. The lower bound of EAD is the actual outstanding balance at calculation of EAD. For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value should counterparties fail to perform their obligations.

When a customer defaults, some part of the amount outstanding on the loan is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, comprise the **loss given default** (LGD), which is expressed as a percentage of EAD. Using historical information, the Group estimates how much is likely to be lost, on average, for various types of loans in the event of default.

The level of LGD depends principally on: the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the length of time taken for the recovery process and the timing of all associated cash flows; and the jurisdiction applicable and work-out expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets, whether a business can readily be refinanced or the availability of a repayment source for personal customers.

The ratings process

The term **internal ratings** usually refers to internally calculated estimates of PD. These ratings are combined with EAD and LGD in the range of applications described previously. The **ratings process** refers to the use of PD, EAD and LGD across the Group. In Barclays, the rating process is defined by each business. For central government and banks, institutions and corporate customers many of the models used in the rating process are shared across businesses as the models are customer specific. For retail exposures, the ratings models are usually unique to the business and product type e.g. mortgages, credit cards, and consumer loans.

Wholesale Approaches

A bespoke model has been built for PD and LGD for **Sovereign** ratings. For Sovereigns where there is no externally available rating, we use an internally developed PD scorecard. The scorecard has been developed using historic data on Sovereigns from an external data provider covering a wide range of qualitative and quantitative information. Our LGD model is based on resolved recoveries in the public domain, with a significant element of conservatism added to compensate for the small sample size.

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Risk management

Credit risk management

Measurement, reporting and internal ratings

To construct ratings for institutions, corporates, specialised lending and purchased corporate receivables and equity exposures, we use external models, rating agencies and internally constructed models. The applicability of each of these approaches to our customers has been validated by us to internal rating standards. The data used in validating these primary indicators are representative of the population of the bank's actual obligors and exposures and its long-term experience.

Internally built PD models are also widely used. We employ a range of methods in the construction of these models. The basic types of PD modelling approaches used are:

Structural

Expert lender

Statistical

Structural models incorporate in their specification the elements of the industry-accepted Merton framework to identify the distance to default for a counterparty. This relies upon the modeller having access to specific time series data or data proxies for the portfolio. Data samples used to build and validate these models are typically constructed by adding together data sets from internal default observations with comparable externally obtained data sets from commercial providers such as rating agencies and industry gathering consortia.

Expert lender models are used for parts of the portfolio where the risk drivers are specific to a particular counterparty, but where there is insufficient data to support the construction of a statistical model. These models utilise the knowledge of credit experts that have in depth experience of the specific customer type being modelled.

For any of the portfolios where we have a low number of default observations we adopt specific rules to ensure that the calibration of the model meets the Basel II and FSA criteria for conservatism. We have developed our own internal policy which describes specific criteria for the use of parametric and non-parametric low default portfolio calibration techniques.

Statistical models such as behavioural and application scorecards are used for our high volume portfolios such as Small/Medium Enterprises (SME). The model builds typically incorporate the use of large amounts of internal data, combined with supplemental data from external data suppliers. Where external data is sourced to validate or enhance internally-held data as part of the risk assessment process or to support model development and BAU operation, a similar approach is adopted towards ensuring data quality to that applied to the management of internal data. This entails adherence to the Group's procurement and supplier management process, including the agreement of specifications and service level agreements.

In wholesale portfolios the main approaches to calculate LGD aim to establish the affects of drivers (including industry, collateral coverage, recovery periods, seniority and costs) by looking at Barclays historical experience, supplemented with other external information where necessary. Estimates built using historical information are reviewed to establish whether they can be expected to be representative of future loss rates, and adjusted if necessary.

In a similar fashion, wholesale EAD models estimate the potential utilisation of headroom based on historical information also considering the future outlook of client behaviour.

Typically, modellers do not manipulate external data before using it as input to the model estimation or validation procedure. Changes required in the estimation and validation process are documented in the model build papers.

For all the above asset classes we use the Basel II definition of default, utilising the 90 day past due criteria as the final trigger of default.

Derivative counterparty credit risk measurement

The magnitude of trading exposure is determined by considering the current mark to market of the contract, the historic volatility of the underlying asset and the time to maturity. This allows calculation of a credit equivalent exposure (CEE) for such exposures using a stochastic method and a 98% confidence level.

Retail Approaches

Our retail banking operations have long and extensive experience of using credit models in assessing and managing risk in their businesses and as a result models play an integral role in customer approval and management processes.

Models used include PD models, mostly in the form of application and behavioural scorecards, as well as LGD and EAD models.

Application scorecards are derived from the historically observed performance of new clients. They are built using customer demographic and financial information, supplemented by credit bureau information where available. Through statistical techniques, the relationship between these candidate variables and the default marker is quantified to produce output scores reflecting a PD. These scores are used primarily for new customer decisioning but are, in some cases, also used to allocate PDs to new customers for the purposes of capital calculation.

Behavioural scorecards are derived from the historically observed performance of existing clients as well as being supplemented by the same data as is used for application scoring, including the use of bureau data. The techniques used to derive the output are the same as for application scoring. The output scores are used for existing customer management activities as well as for allocating PDs to existing customers for the purposes of capital calculation.

It is Barclays philosophy to embed Basel II models as extensively as possible in the portfolio management process. This is an ongoing initiative and we expect greater convergence over time. However, in some cases there are sound business reasons for having different models for capital allocations and internal processes.

EAD models within retail portfolios are split into two main methodological categories. The less complex models derive product level credit conversion factors (CCFs) from historical balance migrations; these are frequently further segmented at a delinquency bucket level. The most sophisticated EAD models are behavioural based, determining customer level CCFs from characteristics of the individual facility.

Retail LGD models are built using bespoke methods chosen to best model the observed recovery process. In a number of secured portfolios, structural models are often used which parameterise the LGD drivers giving models which can easily be updated to reflect current market trends. Models based on historical cash collected curves are often utilised in portfolios where recoveries are not based on the recovery of a single source of collateral. Finally, in some instances regression techniques are used to generate predicted LGDs based on account characteristics. In all instances bespoke country level factors are derived to discount recovery flows to the point of default. For capital calculations, customised economic downturn adjustments are made to adjust losses to stressed conditions.

Most retail models within Barclays are built in-house, although occasionally external consultants will be contracted to build models on behalf of the businesses. Whilst most models are statistically or empirically derived, some expert lender models (similar to those described above in the wholesale context) are used, particularly where data limitations preclude a more sophisticated approach.

Where models are used in the calculation of regulatory capital, the definition of default is in line with the regulatory definition of default requirements i.e. for UK portfolios the default definition is 180 days past due whilst international regulators may have different rules. In some cases, for models not used in regulatory capital calculations, in order to maximise model suitability, different default definitions are used. However, in all cases EAD and LGD models are appropriately aligned.

The control mechanisms for the rating system

Each of the business risk teams is responsible for the design, oversight and performance of the individual credit rating models – PD, LGD and EAD that comprise the credit rating system for a particular customer within each asset class. Group-wide standards in each of these areas are set by Group Risk and are governed through a series of committees with responsibility for oversight, modelling and credit measurement methodologies.

Through their day-to-day activities, key senior management in Group Credit Risk, the businesses and the business risk teams have a good understanding of the operation and design of the rating systems used.

For example:

The respective Business Risk Heads or equivalents are responsible for supplying a robust rating system.

The Group Risk Director, Credit Risk Director and Wholesale and Retail Credit Risk Directors are required to understand the operation and design of the rating system used to assess and manage credit risk in order to carry out their responsibilities effectively. This extends to the Business CEOs, Business Risk Directors and the Commercial/ Managing Directors or equivalent.

In addition, [Group Model Risk Policy](#) requires that all models be validated as part of the model build (see page 79). This is an iterative process that is carried out by the model owner. Additionally, a formal independent review is carried out after each model is built to check that it is robust, meets all internal and external standards and is documented appropriately. These reviews must be documented and conducted by personnel who are independent of those involved in the model-building process. The results of the review are required to be signed off by an appropriate authority.

In addition to the independent review, post implementation and annual reviews take place for each model. These reviews are designed to ensure compliance with policy requirements such as:

integration of models into the business process

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compliance with the model risk policy

continuation of a robust governance process around model data inputs and use of outputs

Model performance is monitored regularly; frequency of monitoring is monthly for those models that are applicable to higher volume or volatile portfolios, and quarterly for lower volume or less volatile portfolios. Model monitoring includes coverage of the following characteristics: utility, stability, efficiency, accuracy, portfolio and data.

Model owners set performance ranges and define appropriate actions for their models. As part of the regular monitoring, the performance of the models is compared with these operational ranges. If breaches occur, the model owner reports these to the approval body appropriate for the materiality of the model. The model approver is responsible for ensuring completion of the defined action, which may ultimately be a complete rebuild of the model.

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Risk management

Credit risk management

Credit risk mitigation

The Group uses a wide variety of techniques to reduce credit risk on its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. In addition, the Group commonly obtains security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories. The Group ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

Various forms of collateral are held and commonly include: cash in major currencies; fixed income products including government bonds; letters of credit; property, including residential and commercial; and other fixed assets.

The Group actively manages its credit exposures and when weaknesses in exposures are detected – either in individual exposures or in groups of exposures – action is taken to mitigate the risks. These include steps to reduce the amounts outstanding (in discussion with the customers, clients or counterparties, if appropriate), the use of credit derivatives and, sometimes, the sale of the loan assets.

The Group also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, as well as financial guarantees, and the use of covenants in commercial lending agreements.

Barclays manages the diversification of its portfolio to avoid unwanted credit risk concentrations. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Credit risk mitigation to address concentrations takes several dimensions. Within wholesale credit risk, maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to borrowers with higher ratings. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses to maximum exposure guidelines are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Risk Oversight Committee and the Board Risk Committee.

Wrong way risk in a trading exposure arises when there is significant correlation between the underlying asset and the counterparty which in the event of default would lead to a significant mark to market loss.

When assessing the credit exposure of a wrong way trade, analysts take into account the correlation between the counterparty and the underlying asset as part of the sanctioning process. Adjustments to the calculated CEE are considered on a case by case basis.

The Risk Oversight Committee has delegated and apportioned responsibility for risk management to the Retail and Wholesale Credit Risk Management Committees. The Retail Credit Risk Management Committee (RCRMC) oversees exposures, which comprise unsecured personal lending (including small businesses), mortgages and credit cards. The RCRMC monitors the risk profile and performance of the retail

portfolios by receipt of key risk measures and indicators at an individual portfolio level, ensuring mitigating actions taken to address performance are appropriate and timely. Metrics reviewed will consider portfolio composition at both an overall stock and new flow level.

The Wholesale Credit Risk Management Committee (WCRMC) oversees wholesale exposures, comprising lending to businesses, banks, other financial institutions and sovereigns. The WCRMC monitors exposure by country, industry sector, individual large exposures and exposures to sub-investment grade countries.

Country concentrations are addressed through the country risk policy and utilisation of country limits which specify Risk Appetite by country and avoid excessive concentrations of credits in individual countries. Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed regularly to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot normally receive a higher risk grading than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

To manage exposure to country risk, the Group uses two country limits: the Prudential Guideline and the Country Guideline. The Prudential Guideline is identified through the strict mapping of a country grade to derive a model-driven acceptable level of country appetite. The Country

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Guideline for all graded countries is set by the Credit Committee based on the Prudential Guideline and the internal assessment of country risk. The Country Guideline may therefore be above or below the Prudential Guideline.

Country risk is calculated through the application of Country Loss Given Default (CLGD). All cross-border or domestic foreign currency transactions incur CLGD from the Country Guideline agreed at Credit Committee. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade. CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral covers the borrowing and is not expected to decrease over time.

Country Managers are in place for all countries where the Group has exposure and they, under the direction of Credit Committee, have responsibility for allocating country risk to individual transactions. The total allocation of country limits is monitored on a daily basis by Group Credit Risk, as headed by the Credit Risk Director. Discretions exist to increase the Country Guideline above the level agreed by Credit Committee where the Country Guideline is below the Prudential Guideline. All requests to increase the Country Guideline in line with individual discretions must be submitted to and applied centrally through Group Credit Risk.

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A further mitigant against undesirable concentration of risk is the mandate and scale framework described on page 78. Mandate and scale limits, which can also be set at Group level to reflect overall Risk Appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on UK commercial investment property lending, the proportion of lending with maturity in excess of seven years and the proportion of new mortgage business that is buy-to-let. The mandate and scale framework also provides protection against undue concentrations within the collateral held.

Concentrations of credit exposure described in this credit risk management section and the following statistical section are not proportionally related to credit loss. Some segments of the Group's portfolio have and are expected to have proportionally higher credit charges in relation to the exposure than others. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus, comparatively large credit impairment charges could arise in parts of the portfolio not mentioned here.

Securitisations

In the course of its business, Barclays has traditionally undertaken securitisations of its own originated assets as well as the securitisation of third party assets via sponsored conduit vehicles and shelf programmes.

Barclays has securitised its own originated assets in order to manage the Group's credit risk position, to obtain regulatory capital relief, and to generate term liquidity for the Group balance sheet.

For these transactions Barclays adopts the following roles in the securitisation process:

Originator of securitised assets

Executor of securitisation trades including bond marketing and syndication

Provider of securitisation trade servicing, including data management, investor payments and reporting.

As at the end 2008 Barclays has securitised its own originated retail and commercial mortgages, credit cards and corporate loans across both funded traditional and synthetic transactions.

Barclays acts as an administrator and manager of multi-seller conduits through which interests in third-party-originated assets are securitised and funded via the issuance of asset backed commercial paper. From a regulatory perspective, Barclays would be defined primarily as a sponsor of these conduits.

In relation to such conduit activity, Barclays may provide all or a portion of the backstop liquidity to the commercial paper, programme-wide credit enhancement and, as appropriate, interest rate and foreign currency hedging facilities. Barclays receives fees for the provision of these services.

In addition to the above, Barclays has provided swaps to securitisation vehicles, both those sponsored by Barclays and those sponsored by third

parties, in order to provide hedges against interest rate and/or currency movements. This forms part of Barclays Capital's market making activity in interest rate and foreign exchange products.

Barclays also acts as an investor in third-party securitisations (i.e. where Barclays would not be defined as an originator or a sponsor for regulatory purposes). This includes positions in ABS CDO Super Senior, other US Sub Prime & Alt A and bonds which benefit from monoline credit protection. See [Barclays Capital Credit Market Exposures](#) on pages 106 to 118 for further details.

Due to the market disruption experienced since August 2007, the volume of securitisation activity in all forms that Barclays has undertaken has been more limited than previously. In addition, the change in risk weighting of certain assets (for example residential mortgages) and of banks securitisations exposures as a result of the introduction of the Basel II regime means that the extent of regulatory relief obtainable from securitisations has changed.

As such, Barclays own asset securitisation in 2008 was limited mainly to trades where securities have been retained on balance sheet and used as required as in central bank liquidity schemes.

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During 2008, Barclays launched Salisbury Receivables Corporations (Salisbury), a multi-seller asset-backed commercial paper conduit modelled after Sheffield Receivables Corporation (Sheffield), which was launched in December 1991. Similar to Sheffield, Salisbury has the ability to issue both US commercial paper (CP) and Euro CP notes to finance client asset-backed receivable transactions. Sponsored conduits primarily fund traditional assets such as credit cards, auto loans, student loans, prime mortgages and trade receivables.

RWAs reported for securitised assets at December 2008 are calculated in line with FSA regulations as well as any individual guidance received from the FSA as at the end of the period. Barclays has approval to use the Internal Ratings Based Approach for the calculation of RWAs. Within this, the Group uses the Internal Assessment Approach and the Supervisory Formula Approach to calculate its regulatory capital requirements arising from its securitisation exposures.

Further information about securitisation activities and accounting treatment is in Note 29. The Group's accounting policies, including those relevant to securitisation activities are on page 193.

For certain transactions, there may be a divergence between the accounting and regulatory treatment of Barclays exposure to securitisations, for example in the treatment of exposure values. This will reflect differing guidance given in the accounting and regulatory regimes which in turn reflect the areas in which the aims of each regime differ.

Barclays employs External Credit Assessment Institutions to provide ratings for its asset backed securities. Their use is dependent on the transaction or asset class involved. For existing transactions, we employ Standard & Poor's, Moody's and Fitch for securitisations of corporate, residential mortgage and other retail exposures and Standard & Poor's and Moody's for securitisations of small and medium-sized entity and revolving retail exposures.

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Risk management

Credit risk management

Analysis of total assets and credit risk exposures

	Analysis of total assets						Sub analysis		
	Loans and advances ^a £m	Debt securities and other bills ^b £m	Derivatives ^c £m	Reverse repurchase agreements ^d £m	Other £m	Assets subject to credit risk £m	Assets not subject to credit risk £m	Total assets £m	Credit market exposures ^e £m
Assets									
Cash and balances at central banks					30,019	30,019		30,019	
Items in the course of collection from other banks					1,695	1,695		1,695	
Treasury and other eligible bills		4,544				4,544		4,544	
Debt securities		148,686				148,686		148,686	4,745
Equity securities ^f							30,535	30,535	
Traded loans	1,070					1,070		1,070	
Commodities ^g							802	802	
Total Trading portfolio assets	1,070	153,230				154,300	31,337	185,637	
Financial assets designated at fair value									
Loans and advances	30,057				130	30,187		30,187	14,429
Debt securities		8,628				8,628		8,628	
Equity securities ^f							6,496	6,496	
Other financial assets ^h	1,469			7,283	479	9,231		9,231	
Held on own account	31,526	8,628		7,283	609	48,046	6,496	54,542	
Held in respect of linked liabilities under investment contractsⁱ							66,657	66,657	
Derivative financial instruments			984,802			984,802		984,802	9,234
Loans and advances to banks	47,707					47,707		47,707	
Loans and advances to customers	461,815					461,815		461,815	12,808
Debt securities		58,831				58,831		58,831	727
Equity securities ^f							2,142	2,142	
Treasury and other eligible bills		4,003				4,003		4,003	
Available for sale financial instruments	62,834					62,834	2,142	64,976	
Reverse repurchase agreements and cash collateral on securities borrowed				130,354		130,354		130,354	
Other assets					3,096	3,096	3,206	6,302	109

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Current tax assets							389	389	
Investments in associates and joint ventures							341	341	
Goodwill							7,625	7,625	
Intangible assets							2,777	2,777	
Property, plant and equipment							4,674	4,674	
Deferred tax assets							2,668	2,668	
Total on-balance sheet	542,118	224,692	984,802	137,637	35,419	1,924,668	128,312	2,052,980	
Off-balance sheet:									
Acceptances and endorsements							585		
Guarantees and letters of credit pledged as collateral security and securities lending arrangements							53,942		
Commitments							260,816		1,030
Total off-balance sheet							315,343		
Total maximum exposure to credit risk							2,240,011		
Notes									

- a Further analysis of loans and advances is on pages 89 to 102
- b Further analysis of debt securities and other bills is on page 103
- c Further analysis of derivatives is on pages 104 to 105.
- d Reverse repurchase agreements comprise primarily short-term cash lending with assets pledged by counterparties securing the loan.
- e Further analysis of Barclays Capital credit market exposures is on pages 106 to 118.
- f Equity securities comprise primarily equity securities determined by available quoted prices in active markets.
- g Commodities primarily consists of physical inventory positions.
- h These instruments consist primarily of loans with embedded derivatives and reverse repurchase agreements designated at fair value.
- i Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have not been further analysed as the Group is not exposed to the risks inherent in these assets.

Risk management

Credit risk management

Loans and advances

As the granting of credit is one of the Group's major sources of income and its most significant risk, the Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in the following broad stages:

Measuring exposures and concentrations

Monitoring weakness in exposures

Identifying potential problem loans and credit risk loans (collectively known as potential credit risk loans or PCRLs)

Raising allowances for impaired loans

Writing off assets when the whole or part of a debt is considered irrecoverable

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although Barclays can also be exposed to other forms of credit risk

through loans to banks, loan commitments, contingent liabilities and debt securities. The value of outstanding loans and advances balances, their risk profile, and potential concentrations within them can therefore have a considerable influence on the level of credit risk in the Group.

As at 31st December 2008, total loans and advances to customers and banks net of impairment allowance were £542,118m (2007: £410,789m), a rise of 32% on the previous year. Loans and advances at amortised cost were £509,522m (2007: £385,518m) and loans and advances at fair value were £32,596m (2007: £25,271m). Loans and advances were well distributed across the retail and wholesale portfolios.

Loans and advances were also well spread across industry classifications. Barclays largest sectoral exposure is to home loans which, combined with other personal and business services sectors, comprise 48% of total loans and advances (2007: 53%). These categories are generally comprised of small loans, have low volatility of credit risk outcomes, and are intrinsically highly diversified. Growth in loans and advances to the financial services sector reflected an increased client base in the fund management business and increases in cash collateral. Loans and advances are further diversified across a number of geographical regions,

Table 1: Loans and advances at amortised cost

	Gross loans and advances	Impairment allowance	Loans and advances net of impairment	Credit risk Loans	CRLs % of gross loans and advances	Impairment charge	Loan loss rates
	£m	£m	£m	£m	%	£m	basis points
As at 31st December 2008							
Wholesale customers	266,750	2,784	263,966	8,144	3.1	2,540	95
Wholesale banks	47,758	51	47,707	48	0.1	40	8
Total wholesale	314,508	2,835	311,673	8,192	2.6	2,580	82
Retail customers	201,588	3,739	197,849	7,508	3.7	2,333	116
Total retail	201,588	3,739	197,849	7,508	3.7	2,333	116
Total	516,096	6,574	509,522	15,700	3.0	4,913	95
As at 31st December 2007							
Wholesale customers	187,086	1,309	185,777	5,157	2.8	1,190	64
Wholesale banks	40,123	3	40,120			(13)	(3)
Total wholesale	227,209	1,312	225,897	5,157	2.3	1,177	52
Retail customers	162,081	2,460	159,621	4,484	2.8	1,605	99
Total retail	162,081	2,460	159,621	4,484	2.8	1,605	99
Total	389,290	3,772	385,518	9,641	2.5	2,782	71

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Risk Management

Credit Risk Management

Loans and advances

based on location of customers. The majority of Barclays exposure is now outside the UK, reflecting higher rates of growth in the international portfolios as well as the effects of currency movements in 2008.

Barclays also actively monitors exposure and concentrations to sub-investment grade countries (see country risk policy, page 86). Details of the 15 largest sub-investment grade countries, by limit, are shown in figure 3.

Contractual maturity represents a further area of potential concentration. The analysis shown in figure 4 indicates that just over 40% of loans to customers have a maturity of more than five years; the majority of this segment comprises secured home loans.

Barclays risk is therefore spread across a large number of industries and customers and in the case of home loans, for example, well secured. These classifications have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even through the parent's predominant sphere of activity may be in a different industry.

Corporate and wholesale loans and advances

Gross loans and advances to wholesale customers and banks grew 38% to £314,508m (31st December 2007: £227,209m), largely due to Barclays Capital where loans and advances increased £72,514m (53%).

Credit Risk Loans (CRLs) rose 59% to £8,192m (31st December 2007: £5,157m). As a percentage of gross loans and advances, CRLs increased 13% to 2.6% (31st December 2007: 2.3%). CRL balances were higher in all businesses, reflecting the downturn in economic conditions, with some deterioration across default grades, higher levels of Early Warning List balances and a rise in impairment and loan loss rates in most wholesale portfolios. The largest rises were in Barclays Capital and GRCB Western Europe.

Impairment charges on loans and advances rose 119% (£1,403m) to £2,580m (31st December 2007: £1,177m), primarily in Barclays Capital, although all other businesses were higher than the previous year. Impairment in Barclays Commercial Bank rose in both the Larger and

Table 2: Wholesale loans and advances to customers and banks

	Gross loans and advances	Impairment allowance	Loans and advances net of impairment	Credit risk Loans	CRLs % of gross loans and advances	Impairment charge	Loan loss rates
As at 31st December 2008	£m	£m	£m	£m	%	£m	basis points
Barclays Commercial Bank	68,904	504	68,400	1,181	1.70	414	60
Barclaycard	301	2	299	20	6.60	11	365
GRCB Western Europe	15,432	232	15,200	578	3.70	125	81
GRCB Emerging Markets	7,551	122	7,429	191	2.50	36	48

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GRCB Absa	8,648	140	8,508	304	3.50	19	22
Barclays Capital	208,596	1,796	206,800	5,743	2.80	1,936	93
Barclays Global Investors	834		834				
Barclays Wealth	3,282	28	3,254	174	5.30	28	85
Head office	960	11	949	1	0.10	11	115
Total	314,508	2,835	311,673	8,192	2.60	2,580	82

As at 31st December 2007

Barclays Commercial Bank	65,535	483	65,052	956	1.50	292	45
Barclaycard	295	3	292	17	5.80	9	305
GRCB Western Europe	10,927	63	10,864	93	0.90	19	17
GRCB Emerging Markets	4,833	79	4,754	119	2.50	10	21
GRCB Absa	5,321	112	5,209	97	1.80	11	21
Barclays Capital	136,082	514	135,568	3,791	2.80	833	61
Barclays Global Investors	211		211				
Barclays Wealth	2,745	7	2,738	47	1.70		
Head office	1,260	51	1,209	37	2.90	3	24
Total	227,209	1,312	225,897	5,157	2.30	1,177	52

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Medium Business divisions. Deterioration in the Spanish commercial and residential property markets led to higher impairment in GRCB Western Europe, while in GRCB Absa, wholesale credit impairment began to rise from a low base and credit indicators began to show deterioration. The loan loss rate on the wholesale and corporate portfolio rose to 82bp (2007: 52bp).

In the wholesale and corporate portfolios impairment allowances increased 116% to £2,835m (31st December 2007: £1,312m).

Barclays largest corporate loan portfolios continue to be in Barclays Capital and Barclays Commercial Bank. Barclays Capital's corporate loan book grew 43% to £72,796m in 2008, driven by the decline in the value of Sterling relative to other currencies as well as drawdowns on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions. Loans and advances at amortised cost grew 5% in Barclays Commercial Bank and was focused in lower-risk portfolios in Larger Business.

Portfolio growth rates were higher in the international businesses, where Global Retail and Commercial Banking's wholesale portfolios in Western Europe, Emerging Markets and Absa grew by 40%, 56% and 63%, respectively.

Analysis of Barclays Capital wholesale loans and advances net of impairment allowances

Barclays Capital wholesale loans and advances increased 53% to £208,596m (2007: £136,082m). This was driven by a decline in the value of Sterling relative to other currencies, increased drawdowns on existing corporate lending facilities and the extension of new loans to corporate clients at current terms. Additionally, continuing market volatility resulted in increased cash collateral being placed with clients relating to OTC derivatives.

The corporate lending portfolio, including leveraged finance, increased 47% to £76,556m (2007: £52,258) primarily due to drawdowns on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions.

Included within corporate lending and other wholesale lending portfolios are £7,674m of loans backed by retail mortgage collateral.

Barclays Capital loans and advances held at fair value

Barclays Capital loans and advances held at fair value were £19,630m (2007: £18,259m). These assets are primarily made up of US RMBS whole loans and commercial real estate loans, £14,429m of which is discussed within the credit market exposures.

Table 3: Analysis of wholesale loans and advances net of impairment allowances

Wholesale	Corporate		Government		Settlement balance and cash collateral		Other wholesale		Total wholesale	
	2008		2008		2008		2008		2008	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
BCB	67,741	64,773	659	279					68,400	65,052
Barclaycard	299	292							299	292
GRCB Western Europe	15,017	10,721	32	4			151	139	15,200	10,864
GRCB Emerging Markets	5,283	3,276	1,709	1,193			437	285	7,429	4,754
GRCB Absa	8,480	5,204	28	5					8,508	5,209
Barclays Capital	72,796	51,038	3,760	1,220	79,418	46,639	50,826	36,671	206,800	135,568
BGI	834	211							834	211

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Barclays Wealth	3,254	2,738							3,254	2,738
Head office	949	1,209							949	1,209
Total	174,653	139,462	6,188	2,701	79,418	46,639	51,414	37,095	311,673	225,897

Table 4: Analysis of Barclays Capital's loans and advances at amortised cost

As at 31st December 2008	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
Loans and advances bank							
Cash collateral and settlement balances	19,264		19,264				
Interbank lending	24,086	51	24,035	48	0.2	40	17
Loans and advances to customers							
Corporate lending	77,042	486	76,556	1,100	1.4	305	40
ABS CDO Super Senior	4,117	1,013	3,104	4,117	100.0	1,383	3,359
Other wholesale lending	23,933	246	23,687	478	2.0	208	87
Cash collateral and settlement balances	60,154		60,154				
Total	208,596	1,796	206,800	5,743	2.8	1,936	93

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Risk Management

Credit Risk Management

Loans and advances

Analysis of Barclays Commercial Bank loans and advances

The tables below analyse the industry split of Barclays Commercial Bank loans and advances after impairment allowance of £504m. The loan book consists of both loans and advances held at amortised cost and loans and advances held at fair value.

Loans and advances held at fair value were £12,966m as at 31st December 2008. Of these, £12,360m related to government, local authority and social housing. Fair value exceeds amortised cost by £3,018m. Fair value is calculated using a valuation model with reference

to observable market inputs and is matched by offsetting fair value movements on hedging instruments. The underlying nominal portfolio increased 47% in 2008.

Property balances within loans and advances at amortised cost and held at fair value totalled £16,351m, of which £8,795m related to social housing.

The weighted average of the drawn balance loss given default, for all of the above loans and advances, was 31%.

Table 5: Analysis of Barclays Commercial Bank loans and advances

Loans and advances to banks at amortised cost

Financial institutions and services	Total £m 867
Total	867

Loans and advances to customers at amortised cost

Business and other services	Total £m 16,611
Construction	3,974
Energy and water	1,112
Financial institutions and services	6,427
Finance Lease receivables	6,644
Manufacturing	8,378
Postal and communications	1,303
Property	8,985

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Transport	2,014
Wholesale and retail distribution and leisure	11,426
Government	659
Total	67,533

Loans and advances held at fair value

	Total
	£m
Business and other services	535
Construction	39
Financial institutions and services	32
Property	7,366
Government	4,994
Total	12,966

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Barclays Commercial Bank financial sponsor leveraged finance

As at 31st December 2008, the exposure relating to financial sponsor related leveraged finance loans in Barclays Commercial Bank was £2,445m, of which £1,875m related to drawn amounts recorded in loans and advances.

Table 6: Barclays Commercial Bank financial sponsor leveraged finance

Leveraged finance exposure by region

As at 31st December 2008	£m
UK	2,111
Europe	323
Other	11
Total lending and commitments	2,445
Underwriting	28
Total exposure	2,473

The industry classification of the exposure was as follows:

Leveraged finance exposure by industry

As at 31st December 2008	Drawn £m	Undrawn £m	Total £m
Business and other services	1,083	288	1,371
Construction	12	5	17
Energy and water	43	17	60
Financial institutions and services	58	10	68
Manufacturing	307	130	437
Postal and communications	35	2	37
Property	26	5	31
Transport	14	43	57
Wholesale and retail distribution and leisure	297	70	367
Total exposure	1,875	570	2,445

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Risk Management

Credit Risk Management

Loans and advances

Retail loans and advances

Gross Loans and Advances to retail customers grew 24% to £201,588m (31st December 2007: £162,081m). The principal drivers were GRCB Western Europe, UK Retail Banking, and Barclaycard. The GRCB Western Europe retail portfolio grew by £14,436m (59%) to £38,918m, largely driven by home loans in Spain and Italy, and the appreciation of the Euro against Sterling. The UK Retail Banking portfolio increased by £12,319m (15%) to £96,083m, primarily driven by UK home loans. The Barclaycard Retail portfolios grew by £8,866m (43%) to £29,390m, with growth across the US, UK and Barclaycard's other European card portfolios.

Total home loans to retail customers grew by 27% to £135,077m, driven by the 58% rise in GRCB Western Europe, reflecting currency movements and book growth. The UK home finance portfolios within UK Retail Banking grew 18% to £82,303m (31st December 2007: £69,805m).

Unsecured retail credit (credit card and unsecured loans) portfolios grew 43% to £38,856m (31st December 2007: £27,256m), principally as a result of growth in Barclaycard US and GRCB Western Europe as well as the acquisition of Goldfish in the UK.

Table 7: Retail loans and advances net of impairment allowances

	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
As at 31st December 2008							
UK Retail Banking	96,083	1,134	94,949	2,403	2.50	602	63
Barclaycard	29,390	1,677	27,713	2,566	8.70	1,086	370
GRCB Western Europe	38,918	302	38,616	794	2.00	171	44
GRCB Emerging Markets	4,083	191	3,892	179	4.40	130	318
GRCB Absa	24,677	411	24,266	1,518	6.20	328	133
Barclays Wealth	8,437	24	8,413	48	0.60	16	19
Total	201,588	3,739	197,849	7,508	3.70	2,333	116
As at 31st December 2007							
UK Retail Banking	83,764	1,005	82,759	2,063	2.50	559	67
Barclaycard	20,524	1,093	19,431	1,601	7.80	818	399
GRCB Western Europe	24,482	81	24,401	250	1.00	57	23
GRCB Emerging Markets	1,881	44	1,837	67	3.60	29	154
GRCB Absa	24,994	235	24,759	499	2.00	135	54
Barclays Wealth	6,436	2	6,434	4	0.10	7	11
Total	162,081	2,460	159,621	4,484	2.80	1,605	99

Table 8: Analysis of retail loans and advances net of impairment allowances

	Home loans		Cards and unsecured loans		Other retail		Total retail	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
UK Retail Banking	82,303	69,805	8,294	8,297	4,352	4,657	94,949	82,759
Barclaycard			23,224	14,930	4,489	4,501	27,713	19,431
GRCB Western Europe	33,760	21,393	4,395	2,660	461	348	38,616	24,401
GRCB Emerging Markets	603	285	2,900	1,369	389	183	3,892	1,837
GRCB Absa	18,411	15,136	43		5,812	9,623	24,266	24,759
Barclays Wealth					8,413	6,434	8,413	6,434
Total	135,077	106,619	38,856	27,256	23,916	25,746	197,849	159,621

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Home Loans

The Group's principal home loans portfolios continue to be in the UK Retail Banking Home Finance business (61% of the Group's total), GRCB Western Europe (25%) primarily Spain, and South Africa (14%). During the year, the Group managed the risk profile of these portfolios by strengthening underwriting criteria and reducing the maximum loan to value (LTV) ratios, with greater discrimination between purchases and remortgages and, within the UK buy to let (BTL) segment, between portfolio customers and single property investors.

Credit quality of the principal home loan portfolios reflected relatively low levels of high LTV lending. The LTVs on the Group's principal home loan portfolios are shown in table 9. Using recent valuations, the LTV of the portfolios as at 31st December 2008 was 40% for UK Retail Banking's mortgage business, 48% for the Spanish mortgage portfolio within GRCB Western Europe and 41% for GRCB Absa's mortgage portfolio in South Africa. The average LTV for new mortgage business during 2008 at origination for these portfolios was 47% for the UK, 63% for Spain and 58% for South Africa. The percentage of balances with an LTV of over 85% based on current values was 10% for the UK, 5% for Spain and 25% for South Africa. In the UK, BTL mortgages comprised 6.8% the total stock.

Impairment charges rose across the home loan portfolios, reflecting the impact of lower house prices as well as some increase in arrears rates. Three-month arrears as at 31st December 2008 were 0.91% for UK

mortgages, 0.76% for Spain and 2.11% for South Africa. To support the Group's risk profile, we increased collections staff across the businesses and improved operational practices to boost effectiveness.

Credit Cards and Unsecured Loans

The Group's largest card and unsecured loan portfolios are in the UK (47% of Group total). The US accounts for 19%, where Barclaycard's portfolio is largely Prime credit quality (FICO score of 660 or more). To address the impact of economic deterioration and the impact of weaker labour markets on the unsecured portfolios in 2008, the Group used a range of measures to improve new customer quality and control the risk profile of existing customers.

In the UK Cards portfolio, initial credit lines were made more conservative, followed by selective credit limit increases using more accurately assessed customer behaviour. The overall number of credit limit increases were reduced by strengthening qualification criteria and a proportion of higher-risk dormant accounts were closed. Arrears rates in the UK Cards portfolio fell slightly during the year, reflecting measures taken to improve customer quality in 2007 and 2008. Repayment Plan balances grew to support government initiatives to supply relief to customers experiencing financial difficulty. Payment rates in repayment plans remained relatively stable.

As a percentage of the portfolio, three-month arrears rates rose during 2008 to 1.87% for UK Loans and 2.15% for US Cards. The rate reduced to 1.28% for UK Cards.

Table 9: Home loans distribution of balances by loan to value (mark to market)

	UK		Spain		South Africa	
	2008	2007	2008	2007	2008	2007
	%	%	%	%	%	%
<= 75%	78.2	90.1	86.7	92.2	60.5	68.6
> 75% and <= 80%	6.1	4.7	4.8	4.2	7.5	7.2
> 80% and <= 85%	5.5	2.5	3.7	1.6	7.2	7.1
> 85% and <= 90%	4.5	1.5	1.6	0.7	7.6	5.9
> 90% and <= 95%	2.5	0.9	1.3	0.6	6.7	6.1
> 95%	3.1	0.3	1.9	0.7	10.5	5.1

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Portfolio loan-to-value (mark to market)	40	34	48	45	41	38
Average loan-to-value on new mortgages during the year	47	49	63	63	58	59

Table 10: Home loans three-month arrears^{a, b}

	As at 31.12.08	As at 30.06.08	As at 31.12.07
	%	%	%
UK	0.91	0.70	0.63
Spain	0.76	0.46	0.24
South Africa	2.11	0.96	0.25

Table 11: Unsecured lending three-month arrears^c

	As at 31.12.08	As at 30.06.08	As at 31.12.07
	%	%	%
UK Cards	1.28	1.36	1.36
UK Loans	1.87	1.40	1.35
US Cards	2.15	2.08	1.83

Note

a Based on the following portfolios: UK: UKRB Residential Mortgage and Buy to Let portfolios; Spain: GRCB Western Europe Spanish retail home finance portfolio; South Africa: GRCB Absa retail home finance portfolio.

b Defined as total 90 day + delinquent balances as a percentage of outstandings.

c Defined as total 90 day + delinquent balances as a percentage of outstandings. Excludes legal and repayment plans. UK Cards based on Barclaycard Branded Cards, excluding Goldfish. UK Loans based on Barclayloan. US cards excludes Business Card and US Airways portfolios.

Risk Management

Credit Risk Management

Loans and advances

Monitoring weaknesses in exposures

Barclays actively manages its credit exposures. When weaknesses in exposures are detected – either in individual exposures or in groups of exposures – the Group takes action to mitigate the risks. Such actions may, for example, include: reducing the amounts outstanding (in discussion with the customers, clients or counterparties if appropriate); using credit derivatives securitising the assets; and, on occasion, selling them.

Corporate accounts that are deemed to contain heightened levels of risk are recorded on graded early warning or watch lists comprising three categories graded in line with the perceived severity of the risk attached to the lending, and its probability of default. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is very carefully monitored and, where appropriate, exposure reductions are effected.

Should an account become impaired, it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control. Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate

category. All obligors, regardless of financial health, are subject to a full review of all facilities on, at least, an annual basis. More frequent interim reviews may be undertaken should circumstances dictate.

Warning list balances rose throughout the year as wholesale credit conditions deteriorated across the regions in which Barclays operates.

Within Local Business, accounts that are deemed to have a heightened level of risk, or that exhibit some unsatisfactory features which could affect viability in the short/medium term, are transferred to a separate 'Caution' stream. Accounts on the Caution stream are reviewed on at least a quarterly basis, at which time consideration is given to continuing with the agreed strategy, returning the customer to a lower risk refer stream, or instigating recovery/exit action.

Within the personal portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow potential weaknesses to be monitored on a portfolio basis. This applies in parts of UK Retail Banking, Barclays Wealth, GRCB's international retail portfolios and Barclaycard. The approach is consistent with the Group's policy of raising a collective impairment allowance as soon as objective evidence of impairment is identified.

CRLs and PPLs balances by UK and non-UK

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b From 1st January 2005, the application of IAS 39 required interest to be recognised on the remaining balance of an impaired financial asset (or group of financial assets) at the effective interest rate for that asset. As a result, interest is credited to the income statement in relation to impaired loans; therefore these loans technically are not classified as 'non-accrual'. In 2005, the Group replaced the 'non-accrual' category with one termed 'impaired loans'. The SEC requires loans to be classified, where applicable, as non-accrual, accruing past due 90

days or more, troubled debt restructurings and potential problem loans.

Potential credit risk loans

In line with disclosure requirements from the Securities Exchange Commission (SEC) in the US, if the credit quality of a loan on an early warning or watch list deteriorates to the highest category, consideration is given to including it within the Potential Problem Loan (PPL) list. PPLs are loans where payment of principal and interest is up to date but where serious doubt exists as to the ability of the borrowers to continue to comply with repayment terms in the near future.

Should further evidence of deterioration be observed, a loan may move to the Credit Risk Loan (CRL) category as required by the SEC. Events that would trigger the transfer of a loan from the PPL to the CRL category could include a missed payment or a breach of covenant.

CRLs comprise three classes of loans:

Impaired loans comprise loans where individual identified impairment allowance has been raised and also include loans which are fully collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

The category accruing past due 90 days or more comprises loans that are 90 days or more past due as to principal or interest. An impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value.

The category impaired and restructured loans comprises loans not included above where, for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

In 2007, the term Credit Risk Loans replaced the term Non-Performing Loans (NPLs) as the collective term for the total of these three classes to recognise the fact that the impaired loan category may include loans which, while impaired, are still performing. This category includes drawn ABS CDO Super Senior positions.

Potential Credit Risk Loans (PCRLs) comprise PPLs and CRLs. Figures 5 and 6 show CRL and PPL balances by UK and non-UK. The amounts are shown before deduction of value of security held, impairment allowances (from 2005 onwards) and provisions or interest suspense (2004), all of which might reduce the impact of an eventual loss, should it occur. The significant increase to non-UK CRL and PPL balances, in 2007 and 2008, is principally due to the inclusion of US-located ABS CDO Super Senior positions and other credit market exposures.

Credit Risk Loans

In 2008, CRLs rose 63% to £15,700m (2007: £9,641m). Balances were higher in all businesses as credit conditions deteriorated across Barclays areas of operations and total loans and advances grew. The most notable increases were in Barclays Capital and the non-UK businesses in Global Retail and Commercial Banking.

CRLs and PPLs as a percentage of Loans and Advances

Notes

- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

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- b From 1st January 2005, the application of IAS 39 required interest to be recognised on the remaining balance of an impaired financial asset (or group of financial assets) at the effective interest rate for that asset. As a result, interest is credited to the income statement in relation to impaired loans; therefore these loans technically are not classified as non-accrual. In 2005, the Group replaced the non-accrual category with one termed impaired loans. The SEC requires loans to be classified, where applicable, as non-accrual, accruing past due 90 days or more, troubled debt restructurings and potential problem loans.

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Risk management

Credit risk management

Loans and advances

CRLs in retail secured mortgage products increased by £1,309m (89%) to £2,783m (2007: £1,474m). The key driver was Absa Home Finance where balances increased significantly as a result of higher interest rates and increasing consumer indebtedness. Increases were also seen in UK Home Finance, reflecting weakening UK house prices and the slowing economy, and in Spain, as economic conditions deteriorated.

CRLs in the unsecured and other retail portfolios increased by £1,715m (57%) to £4,725m (2007: £3,010m). The key drivers for this increase were: Absa, which was impacted by higher interest rates and increasing consumer indebtedness, Barclaycard US, due to deteriorating credit conditions which resulted in rising delinquency rates, asset growth and exchange rate movements, and Spain, as economic conditions deteriorated and consumer indebtedness increased.

Corporate/Wholesale CRLs, excluding ABS CDO Super Senior positions, increased by £2,262m (125%) to £4,075m (2007: £1,813m). The key drivers were: Barclays Capital following a number of credit downgrades; increasing default probabilities; and Spain, primarily due to increases to the property-related names. Balances also increased in Barclays Commercial Bank and Absa Commercial and Banking Business as corporate credit conditions deteriorated, particularly in the last quarter of 2008.

CRLs on ABS CDO Super Senior positions increased £773m (23%) to £4,117m (2007: £3,344m). The majority of this increase resulted from a migration of assets, totalling £801m, from potential problem loans (PPLs) to CRLs.

Potential Problem Loans

Balances within the Group's potential problem loans (PPLs) category rose by £659m to £2,456m (31st December 2007: £1,797m). The principal movements were in the corporate and wholesale portfolios, where PPLs rose £1,463m to £1,959m (31st December 2007: £496m) as credit conditions deteriorated. This rise was offset by a fall in PPLs relating to ABS CDO positions, as those balances moved into the CRL category. Broadly flat PPLs from retail portfolios reflected methodology alignments affecting GRCB Absa which transferred balances of just over £200m previously reported as PPLs to CRLs. This was offset by rises in UK Retail Banking, GRCB Western Europe and GRCB Emerging Markets.

Potential Credit Risk Loans

Combining CRLs and PPLs, total potential credit risk loans (PCRL) balances in the corporate and wholesale portfolios increased by 161% in 2008 to £6,034m (31st December 2007: £2,309m) as a number of names migrated into the CRL and PPL categories, reflecting higher default probabilities in the deteriorating global wholesale environment. PCRLs relating to ABS CDO positions remained stable at £4,117m (31st December 2007: £4,145m).

Total retail PCRL balances increased 61% to £8,005m (31st December 2007: £4,984m) as delinquency rates rose across a number of secured and unsecured portfolios following a deterioration in credit conditions, particularly in the UK, US, Spain and South Africa.

Group PCRL balances rose 59% to £18,156m (31st December 2007: £11,438m). Excluding ABS CDO Super Senior positions, PCRLs increased 92% to £14,039m (31st December 2007: £7,293m).

Table 12: Potential credit risk loans and coverage ratios

	CRLs	PPLs	PCRLs
--	------	------	-------

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	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	2,783	1,474	280	317	3,063	1,791
Retail Unsecured and other	4,725	3,010	217	183	4,942	3,193
Retail	7,508	4,484	497	500	8,005	4,984
Corporate/Wholesale (excl ABS)	4,075	1,813	1,959	496	6,034	2,309
Group (excl ABS)	11,583	6,297	2,456	996	14,039	7,293
ABS CDO Super Senior	4,117	3,344		801	4,117	4,145
Group	15,700	9,641	2,456	1,797	18,156	11,438

	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	561	320	20.2%	21.7%	18.3%	17.9%
Retail Unsecured and other	3,178	2,140	67.3%	71.1%	64.3%	67.0%
Retail	3,739	2,460	49.8%	54.9%	46.7%	49.4%
Corporate/Wholesale (excl ABS)	1,822	1,022	44.7%	56.4%	30.2%	44.3%
Group (excl ABS)	5,561	3,482	48.0%	55.3%	39.6%	47.7%
ABS CDO Super Senior	1,013	290	24.6%	8.7%	24.6%	7.0%
Group	6,574	3,772	41.9%	39.1%	36.2%	33.0%

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Impairment Allowances and Coverage Ratios

In 2008, impairment allowances increased 74% to £6,574m (31st December 2007: £3,772m). Excluding ABS CDO Super Senior positions, allowances increased by 60% to £5,561m (31st December 2007: £3,482m). Allowances increased in all businesses as credit conditions deteriorated, but most notably in Barclays Capital and GRCB's international portfolios.

Reflecting this 74% rise in impairment allowance compared with the 63% rise in total CRLs, the Group's CRL coverage ratio rose to 41.9% (31st December 2007: 39.1%). Coverage ratios for PCRLs rose to 36.2% (31st December 2007: 33.0%).

The largest driver for these increases was the near four-fold increase in the impairment held against ABS CDO Super Senior positions as the LGD of these assets increased.

Allowance coverage ratios of CRLs and PCRLs excluding the drawn ABS CDO Super Senior positions decreased to 48.0% (31st December 2007: 55.3%) and 39.6% (31st December 2007: 47.7%), respectively. These movements in coverage ratios reflected:

An increase in CRLs and PCRLs in the well-secured home loan portfolios.

Higher CRLs and PCRLs in the corporate sector, where the recovery outlook is relatively high.

Increased early-cycle delinquent balances in the retail unsecured portfolios, as credit conditions worsened. These earlier-cycle balances, which tend to attract relatively lower impairment requirements, have increased as a proportion of the total delinquent balances. The decrease in the PCRL coverage ratio, excluding the drawn ABS CDO Super Senior positions, was also driven by the overall increase in PPLs as a proportion of total PCRLs. Since, by definition, PPLs attract lower

levels of impairment than CRLs, a higher proportion of PPLs in total PCRLs will tend to lower the overall coverage ratio.

Allowances for impairment and other credit provisions

Barclays establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book.

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

Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and collateral, as well as the timing of all asset realisations, after allowing for all attendant costs. This method applies in the corporate portfolios Barclays Commercial Bank, Barclays Capital and certain areas within GRCB's international portfolios and Barclaycard.

For collective assessment, the trigger point for impairment is the missing of a contractual payment. The impairment calculation is based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default are derived from statistical probabilities based on experience. Recovery amounts and contractual interest rates are

Notes

- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

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Risk management

Credit risk management

Loans and advances

calculated using a weighted average for the relevant portfolio. This method applies to parts of GRCB's international portfolios, Barclaycard and UK Retail Banking and is consistent with Barclays policy of raising an allowance as soon as impairment is identified.

Unidentified impairment allowances, albeit significantly lower in amount than those reported above, are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported.

The incurred but not yet reported calculation is based on the asset's probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The emergence periods vary across businesses and are based on actual experience and are reviewed on an annual basis. This methodology ensures that the Group only captures the loss incurred at the balance sheet date.

These impairment allowances are reviewed and adjusted at least quarterly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement.

Where appropriate, the accuracy of this analysis is periodically assessed against actual losses.

As one of the controls of ensuring that adequate impairment allowances are held, movements in impairment allowances to individual names above £10m are presented to the Credit Committee for agreement.

Impairment charges and other credit provisions in 2008

In 2008, total impairment charges increased 94% (£2,624m) to £5,419m (2007: £2,795m). This figure included impairment charges of £506m (2007: £13m) on available for sale assets and reverse repurchase agreements.

Impairment charges on loans and advances and other credit provisions increased 77% (£2,131m) to £4,913m (2007: £2,782m) (see table 1 on page 89) reflecting charges of £1,763m against ABS CDO Super Senior and other credit market exposures and increased impairment in the international portfolios within Global Retail and Commercial Banking. Total loans and advances grew 33% to £516,096m (31st December 2007: £389,290m). As a result, impairment charges on loans and advances and other credit provisions as a percentage of period end Group total loans and advances increased to 0.95% (2007: 0.71%).

In the retail portfolios, impairment charges on loans and advances and other credit provisions rose 45% (£728m) to £2,333m (2007: £1,605m) (see table 1 on page 89) principally as a consequence of increased impairment in the international portfolios, whilst total loans and advances increased 24% to £201,588m (31st December 2007: £162,081m). As a result, impairment charges as a percentage of period end total loans and advances increased to 1.16% (2007: 0.99%).

In the wholesale and corporate portfolios, impairment charges on loans and advances and other credit provisions rose by 119% (£1,403m) to £2,580m (2007: £1,177m) (see table 1 on page 89) whilst total loans and advances increased 38% to £314,508m (31st December 2007: £227,209m). As a result, impairment charges as a percentage of period end total loans and advances increased to 0.82% (2007: 0.52%).

Global Retail and Commercial Banking

Impairment charges in UK Retail Banking increased £43m to £602m (2007: £559m), reflecting growth in the book and deteriorating economic conditions. In UK Home Finance, whilst three month arrears increased from 0.63% to 0.91%, the quality of the book and conservative loan to value ratios meant that the impairment charges and amounts charged off remained low at £24m (2007: £3m release). Impairment charges in Consumer Lending increased 3% reflecting the current economic environment and loan growth.

Table 13: Impairment Charges and Other Credit Provisions

	Year Ended 31.12.08	Year Ended 31.12.07
	£m	£m
UK Retail Banking	602	559
Barclays Commercial Bank	414	292
Barclaycard	1,097	827
GRCB Western Europe	296	76
GRCB Emerging Markets	166	39
GRCB Absa	347	146
Barclays Capital	419	64
Barclays Wealth	44	7
Head office functions and other operations	11	3
Group Total	3,396	2,013
ABS CDO Sub-Prime and other credit		
Market Provisions	1,763	782
Group Total (Including ABS CDO)	5,159	2,795
Other AFS Assets and Reverse Repos	260	
Group Total (Including ABS CDO and AFS/Reverse Repos)	5,419	2,795

Note

a 2004 does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

The impairment charge in Barclays Commercial Bank increased £122m to £414m (2007: £292m), primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated.

The impairment charge in Barclaycard increased £270m (33%) to £1,097m (2007: £827m), reflecting higher charges in Barclaycard International portfolios, particularly Barclaycard US which was driven by loan growth, rising delinquency due to deteriorating economic conditions and exchange rate movements; and £68m from the inclusion of Goldfish. These factors were partially offset by lower charges in UK Cards and secured consumer lending.

Impairment charges in GRCB Western Europe increased £220m to £296m (2007: £76m) principally due to deteriorating economic trends and asset growth in Spain, where there were higher charges in the commercial portfolios as a consequence of the slowdown in the property and construction sectors. In addition higher household indebtedness and rising unemployment has driven up delinquency and charge-offs in the personal sector.

Impairment charges in GRCB Emerging Markets increased £127m to £166m (2007: £39m), reflecting: weakening credit conditions which adversely impacted delinquency trends in the majority of the retail portfolios; asset growth, particularly in India; and increased wholesale impairment in Africa.

Impairment charges in GRCB Absa increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Investment Banking and Investment Management

Barclays Capital impairment charges of £2,423m (2007: £846m) included a charge of £1,763m (2007: £782m) against ABS CDO Super Senior and other credit market positions. Further impairment charges of £241m were incurred in respect of available for sale assets and reverse repurchase

agreements (2007: £nil). Other impairment charges increased £355m to £419m (2007: £64m) and primarily related to charges in the private equity and other loans business.

The impairment charge in Barclays Wealth increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

The impairment charge in Head Office Functions and Other Operations increased £8m to £11m (2007: £3m) mainly reflecting losses on Floating Rate Notes held for hedging purposes. An additional £19m (2007: £nil) of impairment charges were incurred on available for sale assets.

Writing-off of assets

After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-off will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

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

Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement.

Total write-offs of impaired financial assets increased by £956m to £2,919m (2007: £1,963m).

Note

- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

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Risk management

Credit risk management

Loans and advances

Risk Tendency

In 2008, Risk Tendency increased 58% (£1,355m) to £3,710m (31st December 2007: £2,355m), compared with 32% growth in the Group's loans and advances balances. This was reflective of the higher credit risk profile, weakening credit conditions across our main businesses, and changing mix, as a consequence of planned growth, in a number of businesses and portfolios. Risk Tendency in 2008 also increased as a result of the weakening of Sterling against a number of other foreign currencies, including the US Dollar and the Euro.

UK Retail Banking Risk Tendency increased £50m to £520m (31st December 2007: £470m). This reflected a higher risk profile in the unsecured and secured loans portfolios, weakening UK credit conditions, and asset growth, primarily in the Home Finance portfolio.

Risk Tendency in Barclays Commercial Bank increased £95m to £400m (31st December 2007: £305m). This reflected the deteriorating UK corporate credit environment and asset growth.

Barclaycard Risk Tendency increased £520m to £1,475m (31st December 2007: £955m) primarily reflecting the inclusion of new business acquisitions (£260m) as well as asset growth, exchange rate movements, and the economic conditions in the US. Risk Tendency in the UK Cards portfolio remained stable as improvements in portfolio quality were offset by deterioration in the UK economic environment.

Risk Tendency at GRCB - Western Europe increased £135m to £270m (31st December 2007: £135m) principally reflecting weakening credit conditions across Europe, particularly in Spain, asset growth and movements in the Euro/Sterling exchange rate.

Risk Tendency at GRCB - Emerging Markets increased £210m to £350m (31st December 2007: £140m) reflecting weakening credit conditions across the majority of regions, a change in the risk profile following a broadening of the product offering through new product launches and new market entry in India and UAE, and asset growth.

Risk Tendency at GRCB - Absa increased £65m to £255m (31st December 2007: £190m) reflecting weakening retail and, to a lesser extent, corporate credit conditions in South Africa and asset growth and movements in the Rand/Sterling exchange rate.

Risk Tendency in Barclays Capital increased £275m to £415m (31st December 2007: £140m) reflecting credit downgrades and asset growth. The drawn liquidity facilities on ABS CDO Super Senior positions are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

Risk Tendency at Barclays Wealth increased £10m to £20m (31st December 2007: £10m) reflecting a weakening credit risk profile and asset growth.

Notes

a Excludes ABS CDO Super Senior positions as these are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

b Head office functions and other operations comprise discontinued businesses in transition.

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Risk management

Credit risk management

Debt securities and other bills

The following table presents an analysis of the credit quality of debt and similar securities, other than loans held within the Group. Securities rated as investment grade amounted to 91.6% of the portfolio (2007: 88.0%).

	Treasury and other eligible bills	Debt securities	Total	
	£m	£m	£m	%
As at 31.12.08				
AAA to BBB (investment grade)	7,314	198,493	205,807	91.6
BB+ to B	1,233	15,309	16,542	7.4
B or lower		2,343	2,343	1.0
Total	8,547	216,145	224,692	100.0
Of which issued by:				
governments and other public bodies	8,547	73,881	82,428	36.7
US agency		34,180	34,180	15.3
mortgage and asset-backed securities		34,844	34,844	15.5
corporate and other issuers		55,244	55,244	24.6
bank and building society certificates of deposit		17,996	17,996	7.9
Total	8,547	216,145	224,692	100.0
Of which classified as:				
trading portfolio assets	4,544	148,686	153,230	68.2
financial instruments designated at fair value		8,628	8,628	3.8
available-for-sale securities	4,003	58,831	62,834	28.0
Total	8,547	216,145	224,692	100.0
	Treasury and other eligible bills	Debt securities	Total	
	£m	£m	£m	%
As at 31.12.07				
AAA to BBB (investment grade)	4,114	189,794	193,908	88.0
BB+ to B	703	24,693	25,396	11.5
B or lower		1,181	1,181	0.5
Total	4,817	215,668	220,485	100.0
Of which issued by:				
governments and other public bodies	4,817	63,798	68,615	31.1
US agency		13,956	13,956	6.3
mortgage and asset-backed securities		28,928	28,928	13.1
corporate and other issuers		88,207	88,207	40.0
bank and building society certificates of deposit		20,779	20,779	9.5
Total	4,817	215,668	220,485	100.0
Of which classified as:				
trading portfolio assets	2,094	152,778	154,872	70.2
financial instruments designated at fair value		24,217	24,217	11.0
available-for-sale securities	2,723	38,673	41,396	18.8
Total	4,817	215,668	220,485	100.0

Risk management

Credit risk management

Derivatives

The use of derivatives and their sale to customers as risk management products are an integral part of the Group's trading activities. These instruments are also used to manage the Group's own exposure to fluctuations in interest, exchange rates and commodity and equity prices as part of its asset and liability management activities.

Barclays Capital manages the trading derivatives book as part of the market risk book. This includes foreign exchange, interest rate, equity, commodity and credit derivatives. The policies regarding market risk management are outlined in the market risk management section on pages 119 to 123.

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

The Group participates both in exchange traded and over the counter derivatives markets.

Exchange traded derivatives

The Group buys and sells financial instruments that are traded or cleared on an exchange, including interest rate swaps, futures and options on futures. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

Over the counter traded derivatives

The Group also buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange.

These instruments range from commoditised transactions in derivative markets, to trades where the specific terms are tailored to the requirements of the Group's customers. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default.

Foreign exchange derivatives

The Group's principal exchange rate related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group's principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward

rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection.

A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer in return receives a predetermined amount.

Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options whose underlyings include mutual funds, hedge funds, indices and multi-asset portfolios.

Commodity derivatives

The Group's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

The tables below set out the fair values of the derivative assets together with the value of those assets subject to enforceable counterparty netting arrangements for which the Group holds offsetting liabilities and eligible collateral.

	Gross assets	Counterparty netting	Net exposure
	£m	£m	£m
Derivative assets As at 31.12.08			
Foreign exchange	107,730	91,572	16,158
Interest rate	615,321	558,985	56,336
Credit derivatives	184,072	155,599	28,473
Equity and stock index	28,684	20,110	8,574
Commodity derivatives	48,995	35,903	13,092
	984,802	862,169	122,633
Total collateral held			54,905
Net exposure less collateral			67,728
		Counterparty netting	Net exposure
	Gross assets		£m
	£m	£m	£m
Derivative assets As at 31.12.07			
Foreign exchange	30,824	22,066	8,758
Interest rate	140,504	117,292	23,212
Credit derivatives	38,696	31,307	7,389
Equity and stock index	13,296	12,151	1,145
Commodity derivatives	24,768	15,969	8,799
	248,088	198,785	49,303
Total collateral held			16,700
Net exposure less collateral			32,603

Gross derivative assets of £985bn (2007: £248bn) cannot be netted down under IFRS. Derivative assets would be £917bn (2007: £215bn) lower than reported under IFRS if counterparty or collateral netting were allowed.

Exposure relating to derivatives, repurchase agreements, reverse repurchase agreements, stock borrowing and loan transactions is calculated using internal, FSA approved models. These are used as the basis to assess both regulatory capital and capital appetite and are managed on a daily basis. The methodology encompasses all relevant factors to enable the current value to be calculated and the future value to be estimated, for example: current market rates, market volatility and legal documentation (including collateral rights).

Risk management

Credit risk management

Barclays Capital credit market exposures

Barclays Capital's credit market exposures primarily relate to US residential mortgages, commercial mortgages and leveraged finance businesses that have been significantly impacted by the continued deterioration in the global credit markets. The exposures include both significant positions subject to fair value movements in the profit and loss account and positions that are classified as loans and advances and available for sale. None of the exposure disclosed below has been reclassified to loans and advances under the amendments to IAS 39.

The exposures are set out by asset class in US Dollars and Sterling below:

	\$m		£m		
	As at	As at	As at	As at	
US Residential Mortgages	Notes	31.12.08	31.12.07	31.12.08	31.12.07
ABS CDO Super Senior	A1	4,526	9,356	3,104	4,671
Other US sub-prime	A2	5,017	10,089	3,441	5,037
Alt-A	A3	6,252	9,847	4,288	4,916
US RMBS exposure wrapped by monoline insurers	A4	2,389	1,462	1,639	730
Commercial mortgages					
Commercial real estate	B1	16,882	22,239	11,578	11,103
Commercial mortgage-backed securities	B1	1,072	2,596	735	1,296
CMBS exposure wrapped by monoline insurers	B2	2,703	395	1,854	197
Other Credit Market Exposures					
Leveraged finance	C1	15,152	18,081	10,391	9,027
SIVs and SIV-Lites	C2	1,404	1,570	963	784
CDPCs	C3	218	39	150	19
CLO and other exposure wrapped by monoline insurers	C4	7,202	817	4,939	408

These exposures have been actively managed during the year in an exceptionally challenging market environment and have been reduced by net sales and paydowns of £6,311m, offset by the 37% appreciation of the US Dollar against Sterling. In January 2009, there was an additional sale of £3,056m of leveraged finance exposure which was repaid at par. Exposures at 31st December 2008 included £1,060m of securities from the acquisition of Lehman Brothers North American businesses. Exposures wrapped by monolines have increased during the course of 2008 as a result of declines in the fair value of the underlying assets.

Analysis of Barclays Capital credit market exposures by asset class

	ABS CDO Senior	Other US sub-prime	Alt-A	RMBS Wrapped by Monoline insurers	Commercial real estate loans	Commercial mortgage backed securities	CMBS wrapped by monoline insurers	Leveraged finance	SIVs and SIV-Lites	CDPCs	CLO and other exposure wrapped by monoline insurers	As at 31.12.08
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities		782	2,532			1,420			11			4,745
Trading portfolio assets		782	2,532			1,420			11			4,745
Loans and advances		1,565	778		11,555				531			14,429
		1,565	778		11,555				531			14,429

Financial assets designated at fair value												
Derivative financial instruments		643	398	1,639	23	(685)	1,854		273	150	4,939	9,234
Loans and advances to customers	3,104	195						9,361	148			12,808
Debt securities Available for sale		147	580									727
financial instruments		147	580									727
Other assets		109										109
Exposure on balance sheet	3,104	3,441	4,288	1,639	11,578	735	1,854	9,361	963	150	4,939	

Notes

- a** As the majority of exposure is held in US Dollars the exposures above are shown in both US Dollars and Sterling .
- b** Included within the total leveraged finance exposure of £10,391m is £1,030m of off-balance sheet commitments.

There were gross losses of £8,053m (2007: £2,999m) in the year to 31st December 2008. These losses were partially offset by related income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on issued notes measured at fair value through the profit and loss account.

The gross losses, which included £1,763m (2007: £782m) in impairment charges, comprised: £5,584m (2007: £2,811m) against US RMBS exposures; £1,488m (2007: £14m) against commercial mortgage exposures; and £981m (2007: £174m) against other credit market exposures.

	Fair Value Losses £m	Impairment Charge £m	Gross Losses £m
ABS CDO super senior	(78)	(1,383)	(1,461)
Other US sub-prime	(1,560)	(168)	(1,728)
Alt-A	(1,858)	(125)	(1,983)
US RMBS wrapped by monoline insurers	(412)		(412)
Total US residential mortgages	(3,908)	(1,676)	(5,584)
US	(671)		(671)
Europe	(350)		(350)
Total commercial real estate	(1,021)		(1,021)
Commercial mortgage-backed securities	(127)		(127)
CMBS wrapped by monoline insurers	(340)		(340)
Total commercial mortgages	(1,488)		(1,488)
SIVs and SIV-Lites	(143)	(87)	(230)
CDPCs	(14)		(14)
CLO and other assets wrapped by monoline insurers	(737)		(737)
Total other credit market	(894)	(87)	(981)
Total	(6,290)	(1,763)	(8,053)

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Risk management

Credit risk management

Barclays Capital credit market exposures

A. US Residential Mortgages

US residential mortgage exposures have reduced by 41% in US Dollar terms, and 19% in Sterling terms, since 31st December 2007.

A1. ABS CDO Super Senior

During the year ABS CDO Super Senior exposures reduced by £1,567m to £3,104m (31st December 2007: £4,671m). Net exposures are stated after write-downs and charges of £1,461m incurred in 2008 (2007: £1,816m) and hedges of £nil (31st December 2007: £1,347m). There were no hedges in place at 31st December 2008 as the corresponding liquidity facilities had been terminated. There were liquidations and paydowns of £2,318m in the year; weaker Sterling and a reduction in hedges increased exposure by £865m and £1,347m respectively.

The remaining ABS CDO Super Senior exposure at 31st December 2008 comprised five high grade liquidity facilities which were fully drawn and classified within loans and receivables, and no remaining mezzanine exposure. At 31st December 2007 there were 15 facilities of which nine were high grade and six mezzanine.

The impairment assessment of remaining super senior positions is based on cash flow methodology using standard market assumptions such as default curves and remittance data to calculate the net present value of the future losses for the collateral pool over time. As a result, future potential impairment charges depend on changes in these assumptions.

We have included all ABS CDO Super Senior exposure in the US residential mortgages section as nearly 90% of the underlying collateral relates to US RMBS. The impairment applied to the notional collateral is set out in the table below.

	As at		As at			As at 31.12.08 Marks ^a	As at 31.12.07 Marks ^a
	31.12.08		31.12.07				
	High Grade	Total	High Grade	Mezzanine	Total		
	£m	£m	£m	£m	£m		
2005 and earlier	1,226	1,226	1,458	1,152	2,610	90%	69%
2006	471	471	1,654	314	1,968	37%	47%
2007 and 2008	25	25	176	87	263	69%	53%
Sub-prime	1,722	1,722	3,288	1,553	4,841	75%	60%
2005 and earlier	891	891	714	102	816	77%	96%
2006	269	269	594	68	662	75%	90%
2007 and 2008	62	62	163	13	176	37%	80%
Alt-A	1,222	1,222	1,471	183	1,654	74%	92%
Prime	520	520	662	123	785	100%	100%
RMBS CDO	402	402	842	445	1,287		19%
Sub-prime second lien	127	127	158		158		32%
Total RMBS	3,993	3,993	6,421	2,304	8,725	68%	63%
CMBS	44	44	189	110	299	100%	96%
Non-RMBS CDO	453	453	429	80	509	56%	49%
CLOs	35	35	26		26	100%	100%
Other ABS	51	51	136	4	140	100%	100%
Total other ABS	583	583	780	194	974	66%	72%
Total notional collateral	4,576	4,576	7,201	2,498	9,699	68%	64%
Subordination	(459)	(459)	(1,001)	(864)	(1,865)		
Gross exposure pre impairment	4,117	4,117	6,200	1,634	7,834		
Impairment allowances	(1,013)	(1,013)	(290)	(432)	(722)		
Trading losses gross of Hedges			(1,041)	(53)	(1,094)		
Hedges			(960)	(387)	(1,347)		
Net exposure	3,104	3,104	3,909	762	4,671		

Collateral marks including liquidated structures
Note

32%

62%

- a Marks above reflect the gross exposure after the impairment and subordination and do not include the benefit of hedges. The change in marks since 31st December 2007 primarily results from the liquidation during 2008 of the most impaired structures.

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Consolidated collateral of £8.4bn relating to the ten CDOs that were liquidated in 2008 has been sold or are stated at fair value net of hedges within Other US sub-prime, Alt-A and CMBS exposures. The notional collateral remaining at 31st December 2008 is marked at approximately 12%. The collateral valuation for all ABS CDO Super Senior deals, including those liquidated and consolidated in 2008, is approximately 32% (31st December 2007: 62%).

The collateral for the outstanding ABS CDO Super Senior exposures primarily comprises residential mortgage backed securities (RMBS). At 31st December 2008 the residual exposure contains a higher proportion of collateral originated in 2005 and earlier than at 31st December 2007. There is minimal exposure to collateral originated in 2007 or later. The vintages of the sub-prime, Alt-A and US RMBS collateral are set out in the table below.

	As at 31.12.08	As at 31.12.07
Sub-prime Collateral by Vintage		
2005 and earlier	71%	54%
2006	27%	41%
2007 and 2008	2%	5%
Alt-A Collateral by Vintage		
2005 and earlier	73%	49%
2006	22%	40%
2007 and 2008	5%	11%
US RMBS Collateral by Vintage		
2005 and earlier	72%	53%
2006	25%	40%
2007 and 2008	3%	7%

RMBS collateral for the ABS CDO Super Senior exposures is subject to public ratings. The ratings of sub-prime, Alt-A and total US RMBS CDO collateral are set out in the table below.

	31.12.08 High Grade	31.12.07 High Grade	31.12.07 Mezzanine	31.12.07 Total
Sub-prime US RMBS Ratings				
AAA/AA	42%	43%	2%	30%
A/BBB	21%	51%	82%	60%
Non-investment Grade	37%	6%	16%	10%
Alt-A RMBS Ratings				
AAA/AA	66%	89%	47%	85%
A/BBB	7%	8%	45%	12%
Non-investment Grade	27%	3%	8%	3%
Total US RMBS Ratings				
AAA/AA	50%	63%	14%	50%
A/BBB	13%	31%	70%	41%
Non-investment Grade	37%	6%	16%	9%

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Risk management

Credit risk management

Barclays Capital credit market exposures

A2. Other US Sub-Prime

	As at 31.12.08	As at 31.12.07	Marks at 31.12.08	Marks at 31.12.07
	£m	£m		
Whole loans performing	1,290	2,805	80%	100%
Whole loans more than 60 days past due	275	372	48%	65%
Total whole loans	1,565	3,177	72%	94%
AAA securities	111	735	40%	92%
Other sub-prime securities	818	525	23%	61%
Total securities gross of hedges	929	1,260	25%	76%
Hedges		(369)		
Securities (net of hedges)	929	891		
Residuals		233		24%
Other exposures with underlying sub-prime collateral:				
Derivatives	643	333	87%	100%
Loans	195	346	70%	100%
Real Estate	109	57	46%	68%
Total other direct and indirect exposure	1,876	1,860		
Total	3,441	5,037		

The majority of Other US sub-prime exposures are measured at fair value through profit and loss. US sub-prime securities held in conduits and a collateralised debt obligation (CDO) are categorised as available for sale and are recognised in equity.

Exposure declined from £5,037m to £3,441m driven by gross losses of £1,728m and net sales, paydowns and other movements of £1,649m. Weaker Sterling resulted in an increase in exposure of £1,086m. Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American businesses of £83m in AAA securities and £124m in other US sub-prime securities.

At 31st December 2008, 82% of the whole loan exposure was performing. Whole loans included £1,422m (31st December 2007: £2,843m) acquired on or originated since the acquisition of EquiFirst in March 2007. Of this balance, £281m of new sub-prime loans were originated in 2008. At 31st December 2008, the average loan to value at origination of all the sub-prime whole loans was 79%. Loans guaranteed by Federal Housing Administration (FHA) are not included in the exposure above. An FHA loan is a mortgage loan fully insured by the US Federal Housing Administration and therefore not considered to be a credit sensitive product. EquiFirst has only originated FHA eligible loans since April 2008, and held £132m of these loans at 31st December 2008.

Securities included £37m held by consolidated conduits and £110m held in a CDO on which impairment charges of £16m and £53m respectively have been recorded.

Other exposures with underlying sub-prime collateral include counterparty derivative exposures to vehicles which hold sub-prime collateral. Derivatives of £643m (31st December 2007: £333m) relate to US Dollar denominated interest rate swaps. The increase in the balance principally relates to the decline in interest rates globally and the 37% depreciation of Sterling relative to the US Dollar, especially in the second half of 2008. The majority of all other exposures with underlying sub-prime collateral was the most senior obligation of the vehicle.

A3. Alt-A

	As at 31.12.08	As at 31.12.07	Marks at 31.12.08	Marks at 31.12.07
	£m	£m		
AAA securities	1,847	3,553	43%	87%
Other Alt-A securities	1,265	208	9%	75%
Whole Loans	776	909	67%	97%
Residuals	2	25	6%	66%
Derivative exposure with underlying Alt-A collateral	398	221	100%	100%
Total	4,288	4,916		

Alt-A securities, whole loans and residuals are measured at fair value through profit and loss. Alt-A securities held in conduits and a collateralised debt obligation (CDO) are categorised as available for sale and are recognised in equity.

Net exposure to the Alt-A market was £4,288m (31st December 2007: £4,916m), through a combination of whole loans, securities and residuals, including those held in consolidated conduits. There were gross losses of £1,983m in the year and net sales, paydowns and other movements of £181m. Weaker Sterling resulted in an increase in exposure of £1,190m. Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American businesses of £300m in AAA securities and £324m in other Alt-A securities.

Securities included £491m held by consolidated conduits and £89m held in a CDO on which impairment charges of £65m and £58m respectively have been recorded.

At 31st December 2008, 75% of the Alt-A whole loan exposure was performing, and the average loan to value ratio at origination was 81%.

Other exposures with underlying Alt-A collateral include counterparty derivative exposures to vehicles which hold Alt-A collateral. Derivative exposures with underlying Alt-A collateral of £398m (31st December 2007: £221m) relate to US Dollar denominated interest rate swaps. The increase in the balance principally relates to the decline in interest rates globally and the 37% depreciation of Sterling relative to the US Dollar, especially in the second half of 2008. The majority of this exposure was the most senior obligation of the vehicle.

A4. US Residential Mortgage Backed Securities Exposure Wrapped by Monoline Insurers

The deterioration in the US residential mortgage market has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection.

The table below shows RMBS assets where we held protection from monoline insurers at 31st December 2008. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £1,639m by 31st December 2008 (2007: £730m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 while 81% of the underlying assets were non-investment grade, 97% are wrapped by monolines with investment grade ratings.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £412m has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cash flow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cash flow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cash flow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs which results in all monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by Credit Rating of Monoline Insurer

	As at 31.12.08				
	Notional £m	Fair Value of Underlying Asset £m	Fair Value Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
AAA/AA					
A/BBB	2,567	492	2,075	(473)	1,602
Non-investment grade	74	8	66	(29)	37
Total	2,641	500	2,141	(502)	1,639
			As at 31.12.07		
AAA/AA	2,807	2,036	771	(41)	730

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Risk management

Credit risk management

Barclays Capital credit market exposures

The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

	Rating of Monoline Insurers		As at 31.12.08	Total
	AAA/AA	A/BBB	Non-Investment Grade	
	£m	£m	£m	£m
2005 and earlier		143		143
2006		1,240		1,240
2007 and 2008		510		510
High Grade		1,893		1,893
Mezzanine 2005 and earlier		625	74	699
CDO ² 2005 and earlier		49		49
US RMBS		2,567	74	2,641

The notional value of the assets, split by the current rating of the underlying asset, is shown below.

	Rating of Underlying Asset		As at 31.12.08	Total
	AAA/AA	A/BBB	Non-Investment Grade	
	£m	£m	£m	£m
2005 and earlier	143			143
2006			1,240	1,240
2007 and 2008			510	510
High Grade	143		1,750	1,893
Mezzanine 2005 and earlier	31	330	338	699
CDO ² 2005 and earlier			49	49
US RMBS	174	330	2,137	2,641

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B. Commercial Mortgages

Commercial mortgages reduced 18% in US Dollar terms. In Sterling terms these increased by 12%.

B1. Commercial Mortgages

Exposures in Barclays Capital's commercial mortgages portfolio, all of which are measured at fair value, comprised commercial real estate loan exposure of £11,578m (31st December 2007: £11,103m) and commercial mortgage-backed securities (CMBS) of £735m (31st December 2007: £1,296m). During the year there were gross losses of £1,148m. Gross sales and paydowns of £1,034m in the UK and Continental Europe and £2,167m in the US were partially offset by additional drawdowns. Weaker Sterling increased exposure by £3,058m.

The commercial real estate loan exposure comprised 55% US, 41% UK and Europe and 4% Asia. 5% of the total relates to land or property under construction.

The US exposure included two large transactions which comprised 42% of the total US exposure and have paid down approximately £789m in the year. The remaining 58% of the US exposure comprised 76 transactions. The remaining weighted average number of years to initial maturity of the US portfolio is 1.4 years.

The UK and Europe portfolio is well diversified with 64 transactions in place as at 31st December 2008. In Europe protection is provided by loan covenants and periodic LTV retests, which cover 90% of the portfolio. 47% of the German exposure relates to one transaction secured on multifamily residential assets. Exposure to the Spanish market represents less than 1% of global exposure at 31st December 2008.

Commercial Real Estate Exposure by Region

	As at 31.12.08	As at 31.12.07	Marks at 31.12.08	Marks at 31.12.07
	£m	£m		
US	6,329	5,947	88%	99%
Germany	2,467	1,783	95%	100%
Sweden	265	250	96%	100%
France	270	289	94%	100%
Switzerland	176	127	97%	100%
Spain	106	89	92%	100%
Other Continental Europe	677	779	90%	100%
UK	831	1,422	89%	100%
Asia	457	417	97%	100%
Total	11,578	11,103		

Commercial Real Estate Exposure Metrics

US	WALTV ^a	WAMB ^b	WALAC ^c
Germany	79.5%	1.4 yrs	1.6 yrs
Other Europe	79.4%	4.6 yrs	1.5 yrs
UK	82.2%	4.5 yrs	1.7 yrs
	77.8%	5.8 yrs	1.8 yrs

Asia

93.3% 4.7 yrs 1.3 yrs

Commercial Real Estate Exposure by Industry

	As at 31.12.08					Total £m
	US	Other				
	£m	Germany £m	Europe £m	UK £m	Asia £m	
Office	2,081	436	802	192	145	3,656
Residential	1,957	1,268		229	128	3,582
Retail	66	567	96	110	118	957
Hotels	1,145		441	29	18	1,633
Leisure				233		233
Land	232					232
Industrial	582	126	131	38	10	887
Mixed/Others	243	70	24		38	375
Hedges	23					23
Total	6,329	2,467	1,494	831	457	11,578

Notes

a Weighted-average loan- to-value based on the most recent valuation.

b Weighted-average number of years to initial maturity.

c Weighted-average loan age.

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Risk management

Credit risk management

Barclays Capital credit market exposures

B1. Commercial Mortgages (continued)

Commercial Mortgage Backed Securities (net of hedges)

	As at 31.12.08 £m	As at 31.12.07 £m	Marks ^a at 31.12.08	Marks ^a at 31.12.07
AAA securities	588	1,008		
Other securities	147	288		
Total	735	1,296	21%	98%

Exposure is stated net of hedges traded in the liquid index swap market with market counterparties. The counterparty exposure is managed through a standard derivative collateralisation process and none of the hedge counterparties are monoline insurers.

Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American businesses of £143m in AAA securities and £86m in other securities.

B2. CMBS Exposure Wrapped by Monoline Insurers

The deterioration in the commercial mortgage market has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection.

The table below shows Commercial Mortgage Backed Security (CMBS) assets where we held protection from monoline insurers at 31st December 2008. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £1,854m by 31st December 2008 (31st December 2007: £197m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 all underlying assets were rated AAA/AA and 89% are wrapped by monolines with investment grade ratings.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £340m has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cash flow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cash flow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cash flow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs which results in all monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by credit rating of monoline insurer

	As at 31.12.08				
	Notional	Fair value	Fair value	Credit	Net
		of underlying			
	£m	asset	£m	adjustment	£m
AAA/AA	69	£m	42	(4)	38
A/BBB	3,258	1,301	1,957	(320)	1,637
Non-investment grade	425	181	244	(65)	179
Total	3,752	1,509	2,243	(389)	1,854
			As at 31.12.07		
AAA/AA	3,614	3,408	206	(9)	197

The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

	Rating of monoline insurers		As at 31.12.08	
			Non-	Total
	AAA/AA	A/BBB	Investment	
	£m	£m	Grade	£m
2005 and earlier		437		437
2006	69	544		613
2007 and 2008		2,277	425	2,702
CMBS	69	3,258	425	3,752

Note

a Marks are based on gross collateral.

The notional value of the assets split by the current rating of the underlying asset, is shown below. All CMBS assets were rated AAA/AA at 31st December 2008.

	Rating of Underlying Asset		As at 31.12.08	Total
	AAA/AA	A/BBB	Non-	
	£m	£m	Investment Grade £m	£m
2005 and earlier	437			437
2006	613			613
2007 and 2008	2,702			2,702
CMBS	3,752			3,752

C . Other credit market exposures

In the year ended 31st December 2008 these exposures increased by 17% in US Dollar terms, and 61% in Sterling terms.

C1. Leveraged Finance

Leveraged loans are classified within loans and advances and are stated at amortised cost less impairment. The overall credit performance of the assets remains satisfactory.

At 31st December 2008, the gross exposure relating to leveraged finance loans was £10,506m (31st December 2007: £9,217m). Barclays Capital expects to hold these leveraged finance positions until redemption. Material movements since 31st December 2007 reflect exchange rate changes rather than changes in loan positions.

The net exposure relating to leverage finance loans of £10,391m (31st December 2007: £9,027m) was reduced to £7,335m following a repayment of £3,056m at par in January 2009.

Leveraged Finance Exposure by Region

	As at 31.12.08	As at 31.12.07
	£m	£m
UK	4,810	4,401
US	3,830	3,037
Europe	1,640	1,568
Asia	226	211
Total lending and commitments	10,506	9,217
Identified and unidentified impairment ^a	(115)	(190)
Net lending and commitments	10,391	9,027

Leveraged finance exposure by industry

	As at 31.12.08			As at 31.12.07		
	Drawn	Undrawn	Total	Drawn	Undrawn	Total
	£m	£m	£m	£m	£m	£m
Insurance	2,546	31	2,577	2,456	78	2,534
Telecoms	2,998	211	3,209	2,259	240	2,499
Retail	904	128	1,032	828	132	960
Health care	659	144	803	577	141	718
Media	655	89	744	469	127	596
Services	568	131	699	388	134	522
Manufacturing	500	102	602	371	125	496
Chemicals	317	26	343	46	286	332
Other	329	168	497	233	327	560
Total	9,476	1,030	10,506	7,627	1,590	9,217

New leveraged finance commitments originated after 30th June 2007 comprised £573m (31st December 2007: £1,148m).

Note

- a The movement in impairment during the period is primarily due to the release of the provision on the post year end repayment, for which there was a binding commitment as at 31st December 2008.

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Risk management

Credit risk management

Barclays Capital credit market exposures

C2. SIVs and SIV-Lites

SIVs/SIV-Lites

	As at 31.12.08	As at 31.12.07	Marks at 31.12.08	Marks at 31.12.07
	£m	£m		
Liquidity facilities	679	466	62%	100%
Bond inventory	11	52	7%	37%
Derivatives	273	266		
Total	963	784		

SIV exposure increased from £784m to £963m during the year. There were £230m of gross losses against SIVs and SIV lites in the year. Weaker Sterling resulted in an increase in exposure of £281m.

At 31st December 2008 liquidity facilities of £679m (31st December 2007: £466m) include £531m designated at fair value through profit and loss relating to a SIV-lite which had previously been hedged with Lehman Brothers. Following the Lehman Brothers bankruptcy this facility was reflected as a new exposure to the underlying assets. The remaining £148m represented drawn liquidity facilities in respect of SIV-lites and other structured investment vehicles classified as loans and advances stated at cost less impairment.

Bond inventory and derivatives are fair valued through profit and loss.

Movement in derivative exposure primarily related to CDS exposure due to general spread widening. At 31st December 2008 exposure was broadly in line with the prior year.

C3. CDPC exposure

Credit derivative product companies (CDPCs) are specialist providers of credit protection principally on corporate exposures in the form of credit derivatives. The Group has purchased protection from CDPCs against a number of securities with a notional value of £1,772m. The fair value of the exposure to CDPCs at 31st December 2008 was £150m. A fair value loss of £14m has been recognised in the year.

Of the notional exposure, 45% related to AAA/AA rated counterparties, with the remainder rated A/BBB.

Exposure by credit rating of CDPC

As at 31.12.08

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	Notional £m	Gross exposure £m	Credit valuation adjustment £m	Net exposure £m
AAA/AA	796	77	(14)	63
A/BBB	976	87		87
Total	1,772	164	(14)	150
		As at 31.12.07		
AAA/AA	1,262	19		19

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C4. CLO and other exposure wrapped by monoline insurers

The table below shows Collateralised Loan Obligations (CLOs) and other assets where we held protection from monoline insurers at 31st December 2008. The deterioration in markets for these assets has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £4,939m by 31st December 2008 (31st December 2007: £408m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 all of the underlying assets have investment grade ratings and 39% are wrapped by monolines rated AAA/AA. 87% of the underlying assets were CLOs, all of which were rated AAA/AA.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £737m, has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cash flow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cash flow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cash flow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs for non-AAA rated monolines, which results in all other monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by credit rating of monoline insurer

	As at 31.12.08				
	Notional £m	Fair value of underlying asset £m	Fair value exposure £m	Credit valuation adjustment £m	Net exposure £m
AAA/AA	8,281	5,854	2,427	(55)	2,372
A/BBB	6,446	4,808	1,638	(204)	1,434
Non-investment grade	6,148	4,441	1,707	(574)	1,133
Total	20,875	15,103	5,772	(833)	4,939
			As at 31.12.07		
AAA/AA	15,152	14,735	417	(9)	408

The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

	Rating of monoline insurers			
	AAA/AA		As at 31.12.08 Non- investment grade	
	£m	£m	£m	Total £m
2005 and earlier	2,064	1,647	2,326	6,037
2006	1,803	2,173	1,918	5,894
2007 and 2008	3,324	1,369	1,602	6,295
CLOs	7,191	5,189	5,846	18,226
2005 and earlier	131	661	70	862
2006	145	158	232	535
2007 and 2008	814	438		1,252
Other	1,090	1,257	302	2,649
Total	8,281	6,446	6,148	20,875

Risk Management

Credit risk management

Barclays Capital credit market exposures

The notional value of the assets split by the current rating of the underlying asset is shown below. All of the underlying assets had investment grade ratings as at 31st December 2008.

	Rating of Underlying Asset		As at 31.12. 08	Total £m
	AAA/AA	A/BBB	Non- Investment Grade £m	
2005 and earlier	6,037			6,037
2006	5,894			5,894
2007 and 2008	6,295			6,295
CLOs	18,226			18,226
2005 and earlier	862			862
2006	535			535
2007 and 2008	785	467		1,252
Other	2,182	467		2,649
Total	20,408	467		20,875
Own credit				

The carrying amount of issued notes that are designated under the IAS 39 fair value option is adjusted to reflect the effect of changes in own credit spreads. The resulting gain or loss is recognised in the income statement.

At 31st December 2008, the own credit adjustment arose from the fair valuation of £54.5bn of Barclays Capital structured notes (31st December 2007: £40.7bn). The widening of Barclays credit spreads in the year affected the fair value of these notes and as a result revaluation gains of £1,663m were recognised in trading income (2007: £658m).

Risk management

Market risk management

Organisation and structure

Market risk is the risk that Barclays earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. Market risk mainly arises from trading activities. Barclays is also exposed to market risk through non-traded interest rate risk and the pension fund.

Barclays market risk objectives are to:

Understand and control market risk by robust measurement and the setting of position limits.

Facilitate business growth within a controlled and transparent risk management framework.

Ensure traded market risk resides primarily in Barclays Capital.

Minimise non-traded market risk.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Director is responsible for the Market Risk Control Framework and, under delegated authority from the Group Risk Director, sets a limit framework within the context of the approved market risk appetite. A daily market risk report summarises Barclays market risk exposures against agreed limits. This daily report is sent to the Group Risk Director, the Market Risk Director, the Group Finance Director and the appropriate Business Risk Directors.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities. Each business is responsible for the identification, measurement,

management, control and reporting of market risk as outlined in Barclays Market Risk Control Framework. Oversight and

support is provided to the business by the Market Risk Director, assisted by the central market risk team. The Market Risk Committee reviews, approves, and makes recommendations concerning the market risk profile across Barclays including risk appetite, limits and utilisation. The Committee meets monthly and is chaired by the Market Risk Director. Attendees include the Group Risk Director, respective business risk managers and senior managers from the central market risk team.

In Barclays Capital, the Head of Market Risk is responsible for implementing the market risk control framework. Day to day responsibility for market risk lies with the senior management of Barclays Capital, supported by the Market Risk Management team that operates independently of the trading areas. Daily market risk reports are produced for Barclays Capital as a whole as well as for the main business areas. The risks covered include interest rate, credit spread, commodity, equity and foreign exchange. A more detailed trading market risk presentation is produced fortnightly and discussed at the Barclays Capital Traded Positions Risk Review meeting. The attendees at this meeting include the Group Risk Director and senior managers from Barclays Capital and the central market risk team.

In Global Retail and Commercial Banking, each of the six main business areas (UK Retail Banking, Barclays Commercial Bank, Barclaycard, Western Europe, Emerging Markets and Absa) has its own market risk department. The head of each department is responsible for implementing the Market Risk Control Framework, with oversight provided by the central market risk team. A combination of daily and monthly risk reports are sent to the central market risk team. A risk summary is presented at Market Risk Committee and the respective Asset and Liability Committees.

Global Retail and Commercial Banking is responsible for non-structural non-trading interest rate risk and Group Treasury is responsible for structural risk (interest rate and foreign exchange). The chart below gives an overview of the business control structure.

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Risk management

Market risk management

Traded market risk

Barclays policy is to concentrate trading activities in Barclays Capital. This includes transactions where Barclays Capital acts as principal with clients or with the market. For maximum efficiency, client and market activities are managed together. In Barclays Capital, trading risk occurs in both the trading book and the banking book, as defined for regulatory purposes.

Risk measurement and control

The measurement techniques used to measure and control traded market risk include Daily Value at Risk (DVaR), Expected Shortfall (ES), stress testing and scenario testing. Book limits such as foreign exchange and interest rate delta limits are also in place.

Daily Value at Risk 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. Barclays Capital uses the historical simulation method with a two year unweighted historical period.

In 2008, the confidence level was changed to 95% from 98% as an increasing incidence of significant market movements made the existing measure more volatile and less effective for risk management purposes. Switching to 95% made DVaR more stable and consequently improved management, transparency and control of the market risk profile.

The historical simulation calculation can be split into three parts:

Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.

Sum hypothetical profit or losses for day one, giving one total profit or loss. This is repeated for all other days in the two year history.

DVaR is the 95th percentile selected from the two years of daily hypothetical total profit or loss.

The DVaR model has been approved by the FSA to calculate regulatory capital for the trading book. The approval covers general market risk in interest rate, foreign exchange, commodities and equity products, and issuer specific risk for the majority of single name and portfolio traded credit products. Internally, as noted before, DVaR is calculated for both the trading and banking books.

When reviewing DVaR estimates, a number of considerations should be taken into account. These are:

Historical simulation uses the recent past to generate possible future market moves but the past may not be a good indicator of the future

The one day time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within one day

Intra-day risk is not captured

DVaR does not indicate the potential loss beyond the 95th percentile.

DVaR is an important market risk measurement and control tool and consequently the model is regularly assessed. The main approach employed is the technique known as **back-testing** which counts the

The daily average, maximum and minimum values of DVaR, 95% and 98%, were calculated as below.

DVaR (95%)

	12 months to			12 months to		
	31st December 2008			31st December 2007		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
Interest rate risk	28.9	47.8	15.1	15.3	26.5	10.0
Credit spread risk	31.1	71.7	15.4	17.3	28.0	10.8
Commodity risk	18.1	25.4	12.5	15.3	19.0	10.7
Equity risk	9.1	21.0	4.8	8.0	12.1	4.5
Foreign exchange risk	5.9	13.0	2.1	3.8	7.2	2.1
Diversification effect ^a	(39.7)	n/a	n/a	(27.2)	n/a	n/a
Total DVaR	53.4	95.2	35.5	32.5	40.9	25.2

DVaR (98%)

	12 months to			12 months to		
	31st December 2008			31st December 2007		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
Interest rate risk	45.0	80.9	21.0	20.0	33.3	12.6
Credit spread risk	54.0	143.4	30.1	24.9	43.3	14.6
Commodity risk	23.9	39.6	16.5	20.2	27.2	14.8
Equity risk	12.8	28.9	6.7	11.2	17.6	7.3
Foreign exchange risk	8.1	21.0	2.9	4.9	9.6	2.9
Diversification effect ^a	(67.3)	n/a	n/a	(39.2)	n/a	n/a
Total DVaR	76.5	158.8	47.5	42.0	59.3	33.1

Note

- a The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. Consequently a diversification effect number for the high (and low) DVaR figures would not be meaningful and it is therefore omitted from the above table.

number of days when a loss (as defined by the FSA in BIPRU 7.10) exceeds the corresponding DVaR estimate, measured at the 99% confidence level.

The FSA categorises a DVaR model as green, amber or red. A green model is consistent with a good working DVaR model and is achieved for models that have four or less back-testing exceptions in a 12-month period. For Barclays Capital's trading book, green model status was maintained for 2008 and 2007.

To further improve the control framework, formal daily monitoring of **Expected Shortfall** (ES) was started. This metric is the average of all the hypothetical losses beyond DVaR.

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. It helps to identify risk concentrations across business lines and assist senior management in capital planning decisions. A variety of different types of stress tests are performed in order to fulfil the objectives of stress testing. The global asset class stress tests have been designed to cover major asset classes including interest rate, credit spread, commodity, equity, foreign exchange rates and emerging markets.

Stress results are produced at least fortnightly. If a potential stress loss exceeds the corresponding trigger limit, the positions captured by the stress test are reviewed and discussed by Barclays Capital market risk management and the respective Barclays Capital business heads. The minutes of the discussion, including the merits of the position and the appropriate course of action, are then sent to the Market Risk Director for review.

Scenario tests are hypothetical events which could lead to extreme yet plausible stress type moves under which profitability is seriously challenged. The scenarios are devised by senior risk managers and economists and are reviewed quarterly. Examples include **Global pandemic**, **Problems with GBP sovereign issuances** and **Liquidity crisis**. The scenarios are calculated at least fortnightly and the results are included in the Traded Positions Risk Review meeting information pack.

Analysis of traded market risk exposures

The tables and graph show the time series for total DVaR with commentary. Further analysis is given in Note 48.

Analysis of trading revenue

The histograms below show the distribution of daily trading revenue for Barclays Capital in 2008 and 2007. Revenue includes net trading income, net interest income, net fees and commissions relating to primary trading, and the effects of gains or losses on own credit. The average daily revenue in 2008 was £19.5m (2007: £26.2m) and there were 203 positive revenue days out of 254 (2007: 224 out of 253). The number of negative revenue days increased in 2008, largely a result of volatile markets especially in the fourth quarter. The number of positive revenue days greater than £45m also increased but these were spread across the year.

Notes

a Total DVaR remains broadly at the same level as recorded in Dec 07.

b Total DVaR reduces due to reduction in interest rate positions.

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- c Barclays acquires Lehman Brothers North American businesses during a period of extreme market volatility. The Lehman positions are subsequently reduced.

- d DVaR increases significantly due to extreme market volatility following the failure of several financial intuitions and a material deterioration in the global economic outlook. Barclays changes to 95% DVaR to improve management, transparency and control of the market risk profile.

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Risk management

Market risk management

Non-traded market risk

Barclays objective is to minimise non-traded market risks. This is achieved by transferring risk from the business to a local treasury or Group Treasury, which in turn hedges the net exposure with the external market. Limits exist to ensure no material risk is retained within any business or product area. The majority of exposures are within Global Retail and Commercial Banking.

Non-traded interest rate risk

Non-traded interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services.

The techniques used to measure and control non-traded interest rate risk include Annual Earnings at Risk, DVaR and Stress Testing. Book limits such as foreign exchange and interest position limits are also in place.

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income (NII) over the next 12 months. It is calculated on a monthly basis as the difference between the estimated income using the current yield curve and the lowest estimated income following a 100 basis points increase or decrease in interest rates.

To complement AEaR, the Group also uses a simplified version of the **DVaR** approach used by Barclays Capital.

Stress testing is also carried out by the business centres and is reviewed by senior management and business-level asset and liability committees. The stress testing is tailored to the business and typically incorporates scenario analysis and historical stress movements applied to respective portfolios.

The analysis of non-traded interest rate risk is given in Note 48.

Other market risks

Barclays maintains a number of defined benefit pension schemes for past and current employees. The ability of the Pension Fund to meet the projected pension payments is maintained through investments and regular Bank contributions. **Pension risk** arises because: the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, Barclays could be required or might choose to make extra contributions to the pension fund. Financial details of the pension fund are in Note 30.

Investment risk is the risk of financial volatility arising from changes in the market value of investments, principally occurring in Barclays insurance companies and Barclays Global Investors. A change in the fair value of these investments may give rise to a liability which may have to be funded by the Group. It is Barclays policy to hedge such exposures in line with a defined risk appetite.

Barclays policy is for foreign exchange traded risk to be concentrated and managed in Barclays Capital. Some transactional **foreign exchange risk** exposure arises within the local treasury operations in Global Retail and Commercial Banking to support and facilitate client activity. This is minimised in accordance with modest risk limits and was not material as at 31st December 2008. Other non-Barclays Capital foreign exchange exposure is covered in Note 48.

Asset management structural market risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management.

It is Barclays policy that businesses monitor and report this risk against a defined risk appetite and regularly assess potential hedging strategies.

Risk management

Market risk management

Disclosures about certain trading activities

Disclosures about certain trading activities including non-exchange traded commodity contracts

The Group provides a fully integrated service to clients for base metals, precious metals, oil, power, natural gas, coal, freight, emission credits, structured products and other related commodities. This service offering continues to expand, as market conditions allow, through the addition of new products and markets.

The Group offers both over the counter (OTC) and exchange traded derivatives, including swaps, options, forwards and futures and enters into physically settled contracts in base metals, power and gas, oil and related products. Physical commodity positions are held at fair value and reported under the Trading Portfolio in Note 12 on page 215.

Fair value measurement

The fair values of physical and derivative positions are primarily determined through a combination of recognised market observable prices, exchange prices, and established inter-commodity relationships.

Further information on fair value measurement of financial instruments can be found in Note 50 on page 287.

Credit risk

Credit risk exposures are actively managed by the Group. Refer to Note 47 on page 264 for more information on the Group's approach to credit risk management and the credit quality of derivative assets.

Fair value of the commodity derivative contracts

The tables below analyse the overall fair value of the OTC commodity derivative contracts by movement over time and maturity. As at

31st December 2008 the fair value of the commodity derivative contracts reflects a gross positive fair value of £44,881m (2007: £23,571m) and a gross negative value of £45,817m (2007: £22,759m).

Movement in fair value of commodity derivative positions

	2008	2007
	£m	£m
Fair value of contracts outstanding at the beginning of the period	812	1,561
Contracts realised or otherwise settled during the period	241	(764)
Fair value of new contracts entered into during the period	(1,245)	243
Other changes in fair values	(744)	(228)
Fair value of contracts outstanding at the end of the period	(936)	812

Maturity analysis of commodity derivative fair value

	2008	2007
	£m	£m
Not more than one year	(2,022)	(279)

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Over one year but not more than five years
Over five years
Total

999	773
87	318
(936)	812

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Risk management

Liquidity risk management

Organisation and structure

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that it will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Barclays Treasury operates a centralised governance and control process that covers all of the Group's liquidity risk management activities. Businesses assist Barclays Treasury in policy formation and limit setting by providing relevant and expert input for their local markets and customers.

Execution of the Group's liquidity risk management strategy is carried out at country level within agreed policies, controls and limits, with the Country Treasurer providing reports directly to Barclays Treasury to evidence conformance with the agreed risk profile. Liquidity risk is a standing agenda item at Country and Cluster Asset and Liability Committees and on a consolidated basis is reported to the Group's Treasury Committee.

The objective of the Group's liquidity risk management strategy is to ensure that the funding profile of individual businesses and the Group as a whole is appropriate to underlying market conditions and the profile of our business in each given country. Liquidity risk limits and controls are flexed to achieve that profile and are based on regular qualitative and quantitative assessments of conditions and abilities under both normal and stressed conditions. Businesses are only allowed to have funding exposure to wholesale markets where they can demonstrate that their market is sufficiently deep and liquid and then only relative to the size and complexity of their business.

Liquidity limits reflect both local regulatory requirements as well as the behavioural characteristics of their balance sheets. Breaches of limits are reported to Treasury Committee together with details of the requirements to return to compliance.

Risk management

Liquidity risk management

Key elements

Liquidity management within the Group has several components.

Intraday liquidity

The need to monitor, manage and control intraday liquidity in real time is recognised by the Group as a critical process: any failure to meet specific intraday commitments would have significant consequences, such as a visible market disruption.

The Group policy is that each operation must ensure that it has access to sufficient intraday liquidity to meet any obligations it may have to clearing and settlement systems. Major currency payment flows and payment system collateral are monitored and managed in real time to ensure that at all times there is sufficient collateral to make payments. In practice, the Group maintains a significant buffer of surplus intraday liquidity to ensure that payments are made on a timely basis. The Group actively engages in payment system development to help ensure that new payment systems are robust.

Day to day funding

Day to day funding is managed through limits on wholesale borrowings, secured borrowings and funding mismatches. These ensure that on any day and over any period there is a limited amount of refinancing required. These requirements include replenishment of funds as they mature or are borrowed by customers. The Retail and Commercial Bank together with Wealth maintain no reliance on wholesale funding. The Group maintains an active presence in global money markets through Barclays Capital and monitors and manages the wholesale money market capacity for the Group's name to enable that to happen.

In addition to cash flow management, Treasury also monitors term mismatches between assets and liabilities, as well as the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Liquid assets

The Group maintains a portfolio of highly marketable assets including UK, US and Euro-area government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The Group accesses secured funding markets in these assets on a regular basis. The Group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow.

Diversification of liquidity sources

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors, the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on a number of factors including the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

Structural liquidity

An important source of structural liquidity is provided by our core retail deposits in the UK, Europe and Africa, mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

The Group policy is to fund the balance sheet of the Retail and Commercial Bank together with Wealth and Head office functions on a global basis with customer deposits and capital without recourse to the wholesale markets. This provides protection from the liquidity risk of wholesale market funding. The exception to this policy is Absa, which has a large portion of wholesale funding due to the structural nature of the South African

financial sector.

Scenario analysis and stress testing

Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk.

Treasury develops and monitors a range of stress tests on the Group's projected cash flows. These stress scenarios include Barclays-specific scenarios such as an unexpected rating downgrade and operational problems, and external scenarios such as Emerging Market crises, payment system disruption and macro-economic shocks. The output informs both the liquidity mismatch limits and the Group's contingency funding plan.

This is maintained by Treasury and is aligned with the Group and country business resumption plans to encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.

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Risk management

Liquidity risk management

Key elements

The ability to raise funds is in part dependent on maintaining the Bank's credit rating. The funding impact of a credit downgrade is closely tracked. Whilst the impact of a single downgrade may affect the price at which funding is available, the effect on liquidity is not considered material in Group terms.

For further details see contractual obligations and commercial commitments of the Group on page 33.

Year end assessment of liquidity

Barclays maintained a strong liquidity profile in 2008, sufficient to absorb the impact of a stressed funding environment. The Group has access to a substantial pool of liquidity both in secured markets and from unsecured depositors including numerous foreign governments and central banks. In addition, our limited reliance on securitisations as a source of funding has meant that the uncertainty in securitisation markets has not impacted our liquidity risk profile.

Whilst funding markets were extremely difficult in the latter half of 2008, and particularly since September 2008, Barclays was able to increase available liquidity, extend the term of unsecured liabilities, and reduce reliance on unsecured funding. Barclays has participated in various government and central bank liquidity facilities, both to aid central banks implementation of monetary policy and support central bank initiatives, where participation has enabled the lengthening of the term of our refinancing. These facilities have improved access to term funding, and helped moderate money market rates.

For the Group, loans and advances to customers and banks are more than covered by the combination of customer deposits and longer term debt at 112% at 31st December 2008 (2007: 125%).

Global Retail and Commercial Banking

The sum of liabilities in Global Retail and Commercial Banking, Barclays Wealth and Head office functions exceeds assets in those businesses. As a result they have no reliance on wholesale funding. The balance sheet is modelled to reflect behavioural experience in both assets and liabilities, and is managed to maintain a positive cash profile (table 1).

Throughout 2008 Global Retail and Commercial Banking continued to grow the amount of deposits despite competitive pressures (table 2).

Barclays Capital

Barclays Capital manages liquidity to be self-funding through wholesale sources, managing access to liquidity to ensure that potential cash outflows in a stressed environment are covered.

Funding reliability is maintained by accessing a wide variety of investors and geographies and by building and maintaining strong relationships with these providers of liquidity.

Unsecured funding

Additionally, unsecured funding is managed within specific term limits. The term of unsecured liabilities has been extended, with average life improving by four months from eight months at the end of December 2007 to 12 months at the end of December 2008.

Our capital markets debt issuance includes issues of senior and subordinated debt in US registered offerings and medium term note programmes and European medium term note programs. Substantially all of our unsecured senior issuance is without covenants that trigger increased cost or accelerate maturity. Furthermore, between September and December 2008 we issued £11bn in government guaranteed debt, £9bn in maturities of one to three years and £2bn in under one-year maturities.

Secured funding

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Barclays funds securities based on liquidity characteristics. Limits are in place for each security asset class reflecting liquidity in the cash and financing markets for these assets. Approximately 80% of assets funded in repurchase and stock loan transactions are fundable within central bank facilities (excluding Bank of England Emergency facilities and the Federal Reserve Primary Dealer Credit Facility).

Liquidity risk to secured funding is also mitigated by:

selecting reliable counterparties

maintaining term financing and by limiting the amount of overnight funding

limiting overall secured funding usage

Readily available liquidity

Substantial resources are maintained to offset maturing deposits and debt. These readily available assets are sufficient to absorb stress level losses of liquidity from unsecured as well as contingent cash outflows, such as collateral requirements on ratings downgrades. The sources of liquidity and contingent liquidity are from a wide variety of sources, including deposits held with central banks and unencumbered securities.

In addition, the Group maintains significant pools of securitisable assets.

Table 1: Expected Net Cash Inflows/(Outflows) on a Behavioural Basis

	Up to 1 yr £bn	1-3yrs £bn	3-5yrs £bn	Over 5 yrs £bn
As at 31.12.08	20	34	14	(95)
Note				

a MBS includes only agency mortgages. ABS includes private label issuance of residential mortgage backed securities.

Table 2: Global Retail and Commercial Banking Deposit Balances

	As at 31.12.08 £bn	As at 30.06.08 £bn	As at 31.12.07 £bn	As at 30.06.07 £bn	As at 31.12.06 £bn
Total customer deposits	235	218	211	200	190

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Risk management

Capital risk management

Organisation and structure

Barclays operates a centralised capital management model, considering both regulatory and economic capital.

The Group's capital management objectives are to:

Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the FSA and the US Federal Reserve Bank's requirements that a financial holding company be well capitalised.

Maintain sufficient capital resources to support the Group's risk appetite and economic capital requirements.

Support the Group's credit rating.

Ensure locally regulated subsidiaries can meet their minimum capital requirements.

Allocate capital to businesses to support the Group's strategic objectives, including optimising returns on economic and regulatory capital.

Treasury Committee manages compliance with the Group's capital management objectives. The Committee reviews actual and forecast capital demand and resources on a monthly basis. The processes in place for delivering the Group's capital management objectives are:

Establishment of internal targets for capital demand and ratios

Managing capital ratio sensitivity to foreign exchange rate movements

Ensuring local entity regulatory capital adequacy

Allocating capital to the Group's strategic medium-term plan

Economic capital management

In addition to the processes above, the Risk Oversight Committee and the Board Risk Committee annually review and set risk appetite (see page 78) and analyse the impacts of stress scenarios (see page 79) in order to understand and manage the Group's projected capital adequacy.

Risk management

Capital risk management

Key elements

Internal targets

To support its capital management objectives, the Group sets internal targets for its key capital ratios. Internal targets are reviewed regularly by Treasury Committee to take account of:

Changes in forecast demand for capital caused by accessing new business opportunities, including mergers and acquisitions

Flexibility in debt capital issuance and securitisation plans

The possible impact of stress scenarios including:

Changes in forecast demand for capital from unanticipated drawdown of committed facilities or as a result of deterioration in the credit quality of the Group's assets

Changes in forecast profits and other capital resources

Changes to capital resources and forecast demand due to foreign exchange rate movements.

Managing capital ratio sensitivity to foreign exchange rate movements

The Group has capital resources (capturing investments in subsidiaries and branches, intangible assets, minority interests and debt capital) and risk weighted assets denominated in non-Sterling currencies. Changes in foreign exchange rates result in changes in the Sterling equivalent value of non-Sterling denominated capital resources and risk weighted assets. As a result, the Group's regulatory capital ratios are sensitive to foreign exchange rate movements.

The Group's hedge strategy is to minimise the volatility of all capital ratios whilst taking into account the impact on hedging of non-Sterling net investments, the cost of hedging, the availability of a suitable foreign exchange market and prevailing foreign exchange rates.

To minimise volatility in the equity ratio, the Group aims over time to maintain the ratio of foreign currency equity capital resources to RWAs the same as the Group's equity ratio. To create equity capital resources denominated in non-Sterling currencies, the Group leaves some investments in core non-Sterling subsidiaries and branches unhedged. The resultant change in the Sterling value of the investments is captured in the currency translation reserve, resulting in an equity capital movement.

Depending on the value of non-Sterling net investments, it may not always be possible to maintain the ratio, leaving some capital ratio sensitivity to foreign exchange movements.

The proceeds from equity accounted foreign currency preference shares are also used in the equity ratio hedge. If a preference share is redeemed, the cumulative movement in the currency translation reserve will be offset by an equal and opposite movement in other reserves reflecting the revaluation of the preference shares to prevailing foreign exchange rates.

The exposure of the Tier 1 and total capital ratios to foreign exchange rate movements is managed by issuing, where possible, debt capital in non-Sterling currencies such that the ratio of Tier 1 and total capital resources to risk weighted assets is the same as the Group's Tier 1 and total capital ratios. This is primarily achieved by the issuance of debt capital from Barclays Bank PLC in major currencies, but can also be achieved by subsidiaries issuing capital in local currencies.

Local entity regulatory capital adequacy

The Group manages its capital resources to ensure that those Group entities that are subject to local capital adequacy regulation in individual jurisdictions meet their minimum capital requirements. Local management manages compliance with entities minimum regulatory

capital requirements by reporting to local Asset and Liability Committees with oversight by Treasury Committee, as required.

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

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

Allocating capital in the Group's strategic medium-term plan

Capital adequacy and returns on regulatory and economic capital form a key part of the Group's annual strategic medium-term planning process. Amongst other strategic objectives, the Group seeks to optimise returns on economic and regulatory capital through the planning process. To achieve this, executive management consider returns on risk weighted assets and economic capital when setting limits for business capital demand. Executive management will also review the forecast capital ratios to ensure internal targets continue to be met over the medium-term plan.

Treasury Committee reviews the limits on capital demand on a monthly basis taking into account actual performance.

Economic capital management

Economic capital is an internal measure of the minimum equity and preference capital required for the Group to maintain its credit rating based upon its risk profile.

Barclays assesses economic capital requirements by measuring the Group risk profile using both internally and externally developed models. The Group assigns economic capital primarily within the following risks: Credit Risk, Market Risk, Operational Risk, Fixed Assets, Private Equity and Pension Risk. Group Risk owns the methodology and policy for economic capital while the businesses are primarily responsible for the calculation.

The Group regularly enhances its economic capital methodology and benchmarks outputs to external reference points. The framework reflects default probabilities during average credit conditions, rather than those prevailing at the balance sheet date, thus removing some of the cyclicity from the economic capital calculation. Economic capital for wholesale credit risk includes counterparty credit risk arising as a result of credit risk on traded market exposures. The framework also adjusts economic capital to reflect time horizon, correlation of risks and risk concentrations.

Economic capital is allocated on a consistent basis across all of Barclays businesses and risk activities. A single cost of equity is applied to calculate the cost of risk. Economic capital allocations reflect varying levels of risk.

The total average economic capital required by the Group, as determined by risk assessment models and after considering the Group's estimated portfolio effects, is compared with the average supply of capital resources to evaluate economic capital utilisation.

The Group's economic capital calculations form the basis of its Internal Capital Adequacy Assessment Process (ICAAP) submission to the FSA under Pillar 2 of Basel II.

Capital Allocation

In 2008, UK Retail Banking economic capital allocation increased £550m to £3,950m (2007: £3,400m), reflecting mortgage asset growth and movements in benchmark house price indices.

Risk management

Capital risk management

Barclays Commercial Bank economic capital allocation increased £300m to £3,500m (2007: £3,200m), primarily as a consequence of asset growth with some mitigation from portfolio management activity.

Barclaycard economic capital allocation increased £650m to £2,700m (2007: £2,050m), driven by acquisitions, the redemption of securitisation deals and exposure growth, predominantly in the US.

GRCB Western Europe economic capital allocation increased £650m to £1,900m (2007: £1,250m), primarily reflecting the weakening of Sterling and underlying lending growth.

GRCB Emerging Markets economic capital allocation increased £650m to £1,100m (2007: £450m), reflecting broad-based retail and wholesale asset growth across the business, especially in India, UAE and the new markets of Russia and Pakistan.

GRCB Absa economic capital allocation increased £200m to £1,100m (2007: £900m), reflecting balance sheet growth.

Barclays Capital economic capital allocation increased £3,050m to £8,250m (2007: £5,200m). This was driven by growth in the investment portfolio, deterioration in credit quality, exposure to drawn leveraged finance underwriting positions and an increase in market volatility.

Barclays Global Investors economic capital allocation increased £200m to £400m (2007: £200m). This was primarily driven by an increase in the support for selected cash funds and some increase in proprietary investments.

Barclays Wealth economic capital allocation in 2008 remained unchanged at £500m, despite strong growth on the balance sheet. This was due to the impact of greater geographical diversification and increased levels of collateralisation.

	2008	2007
	£m	£m
The average supply of capital to support the economic capital framework ^a		
Shareholders' equity excluding minority interests less goodwill	17,650	14,150
Retirement benefits liability	1,050	1,150
Cash flow hedging reserve	100	250
Available for sale reserve	400	(150)
Gains on own credit	(1,250)	(100)
Preference shares	5,500	3,700
Available funds for economic capital excluding goodwill	23,450	19,000
Average historic goodwill and intangible assets ^b	9,450	8,400
Available funds for economic capital including goodwill ^c	32,900	27,400

Notes

^a Averages for the period will not correspond to period-end balances disclosed in the balance sheet. Numbers are rounded to the nearest £50m for presentational purposes only.

- b Average goodwill relates to purchased goodwill and intangible assets from business acquisitions.
- c Available funds for economic capital as at 31st December 2008 stood at £40,150m (2007:£29,200m).
- d Average EC charts exclude the EC calculated for pension risk (average pension risk for 2008 is £650m compared with £500m in 2007).
- e Includes Transition Businesses and capital for central function risks.
- f Includes credit risk loans.
- g Includes investments in associates, private equity risk, insurance risk and residual value.

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Risk management

Operational risk management

Organisation and structure

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts. Barclays is committed to the advanced measurement and management of operational risks. In particular, it has implemented improved management and measurement approaches for operational risk to strengthen control, improve customer service and minimise operating losses. Barclays was granted a Waiver to operate an Advanced Measurement Approach (AMA) under Basel II, which commenced in January 2008.

The Group's operational risk management framework aims to:

Understand and report the operational risks being taken by the Group.

Capture and report operational errors made.

Understand and minimise the frequency and impact, on a cost benefit basis, of operational risk events.

Barclays works closely with peer banks to benchmark our internal operational risk practices and to drive the development of advanced operational risk techniques across the industry. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Events of small significance are expected to occur and are accepted as inevitable; events of material significance are rare and the Group seeks to reduce the risk from these in a framework consistent with its agreed Risk Appetite.

Barclays has a Group Operational Risk Framework, which is consistent with and part of the Group Internal Control and Assurance Framework. Minimum control requirements have been established for all key areas of identified risk by Principal Risk owners (see page 78). The risk categories relevant to operational risks are Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory and Technology. In addition the following risk categories are used for business risk: Brand Management, Corporate Responsibility, Strategic and Change. Responsibility for implementing and overseeing these policies is positioned with Group Principal Risk Owners. The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. Front line risk managers are widely distributed throughout the Group in business units. They service and support these areas, assisting line managers in managing these risks.

Business Risk Directors in each business are responsible for overseeing the implementation of and compliance with Group policies. Governance and Control Committees in each business monitor control effectiveness. The Group Governance and Control Committee receives reports from the committees in the businesses and considers Group-significant control issues and their remediation. In the Group Centre, each Principal Risk is owned by a senior individual who liaises with Principal Risk owners within the businesses. In addition, the Operational Risk Director oversees the range of operational risks across the Group in accordance with the Group Operational Risk Framework. Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the material risks to their business objectives, control issues of Group-level significance, and operational risk events. Specific reports are prepared on a regular basis for the Risk Oversight Committee, the Board Risk Committee and the Board Audit Committee. The Internal Audit function provides further assurance for operational risk control across the organisation and reports to the Board and senior management.

Risk management

Operational risk management

Measurement and capital modelling

Barclays applies a consistent approach to the identification and assessment of key risks and controls across all business units. Managers in the businesses use self-assessment techniques to identify risks, evaluate control effectiveness and monitor performance. Business management determines whether particular risks are effectively managed within business Risk Appetite and otherwise takes remedial action. The risk assessment process is consistent with the principles in the integrated framework published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

A standard process is used Group-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the Group Operational Risk Executive Committee.

Barclays also uses a database of external public risk events and is a member of the Operational Risk Data Exchange (ORX), an association of international banks that share anonymised loss data information to assist in risk identification, assessment and modelling.

By combining internal data, including internal loss experience, risk and control assessments, key indicators and audit findings, with external loss data and expert management judgement, Barclays is able to generate Key Risk Scenarios (KRSs), which identify the most significant operational risks across the Group. The KRSs are validated at business unit and at Group level to ensure that they appropriately reflect the level of operational risk. These are the main input to our capital model. Operational risk capital is allocated, on a risk sensitive basis, to business units in the form of economic capital charges, providing an incentive to manage these risks within appetite levels.

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Risk management

Operational risk management

Operational risk events

A high proportion of Barclays operational risk events have a low financial cost associated with them and a very small proportion of operational risk events have a material impact. In 2008, 73% of reported operational loss events had a value of £50,000 or less (2007: 79%) but accounted for 8% of the overall impact (2007: 15%). In contrast, 2% of the operational risk events had a value of £1m or greater (2007: 2%) but accounted for 66% of the overall impact (2007: 50%).

Analysis of Barclays operational risk events in 2008 by Basel II category, as shown in figure 1, highlights that the highest frequency of events occurred in External Fraud (46%) and Execution, Delivery and Process Management (42%). These two areas also accounted for the majority of losses by value (figure 2), with Execution, Delivery and Process Management accounting for 81% of total operational risk losses and External Fraud accounting for 10%. Compared with 2007 we have seen a reduction in External Fraud and an increase in Execution, Delivery and Process Management events, driven mainly by market volatility.

Barclays has been granted a waiver by the FSA to apply an Advanced Measurement Approach (AMA) for Group-wide consolidated and solus regulatory capital reporting. Barclays has applied the AMA Group-wide. Areas where roll-out of AMA is still continuing and where the Standardised approach is currently applied are Barclays Bank Mozambique, National Bank of Commerce (Tanzania) and the US Airways card portfolio purchased from Bank of America. Areas where roll-out of AMA is ongoing and where the Basic Indicator approach is applied are Banco Comercial Angolano, Woolworths Financial Services in South Africa, Barclays Bank PLC Pakistan, Barclays Investment and Loans India Limited, Barclays Bank LLC Russia and the Cash Equity, Municipal Bonds and M&A business acquired from Lehman Brothers. In certain joint ventures and associates, Barclays may not be able to apply the Advanced Operational Risk Framework.

Barclays does not currently offset the expected loss or mitigating effect of insurances against its regulatory capital requirement. However, Barclays has applied to the FSA to offset expected loss.

Risk management

Financial crime risk management

Anti-money laundering and sanctions risk

Financial crime risk is a category of operational risk. It arises from the risk that the Group might fail to comply with financial crime legislation and industry laws on anti-money laundering or might suffer losses as a result of internal or external fraud, or might fail to ensure the security of personnel, physical premises and the Group's assets.

Barclays adopts an integrated approach to financial crime risk management. In line with the five-step risk management model, Group Financial Crime Management (GFCM) has the responsibility to direct, assess, control, report and manage/challenge financial crime risks, which are structured into three strands: anti-money laundering (AML) and sanctions; fraud; and security.

Each business unit within Barclays develops its own capability to tackle financial crime, providing regular reporting on performance, incidents and the latest trends impacting business. This integrated model allows us to:

- Develop a clear profile of financial crime risk across the Group

- Share intelligence, adopt common standards and respond promptly to emerging issues

- Drive forward law enforcement and other government initiatives

- Benchmark ourselves against other financial institutions facing similar challenges

Anti-money laundering and sanctions risk

The Group assesses the implications of all emerging legal and regulatory requirements that impact it and establishes and operates an AML Risk control framework and associated policies and minimum standards in respect of AML, terrorist financing, sanctions and bribery and corruption.

The Group operates an AML oversight programme to ensure a system of effective controls comply with the overarching policies, providing technical guidance and support to each business unit. This is monitored via conformance testing both at the business units and the Group level. In 2008, Barclays Internal Audit completed a combined global audit of Know Your Customer, AML and Sanctions procedures.

GFCM collates and oversees the preparation of Group-wide management information on AML and sanctions. This information includes risk indicators, such as volumes of suspicious activity reports (SARs) and is supplemented by trend analysis, which highlights high-risk or emerging issues so that prompt action can be taken to address them.

Three committees (the AML Steering Committee, the Sanctions Cross-Cluster Operational Review Board and the Policy Review Forum), review business performance, share intelligence, develop and agree controls, and discuss emerging themes and the implementation status of policies and procedures.

All businesses contribute towards the Group Money Laundering Reporting Officers Annual Report, which is provided to Group senior executive management and is available to the FSA. Together with regular management information and conformance testing, this report updates senior management with evidence that the Group's money laundering and terrorist financing risks are being appropriately, proportionally and effectively managed.

During 2008, the Group augmented its sanctions capability by issuing a revised Sanctions Policy. This enhances certain areas of control such as screening.

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Barclays continues to upgrade its sanctions screening capabilities, in line with best international practice and changing regulatory requirements and has invested substantial resources to further enhance its monitoring capabilities in this area and will continue to do so.

Representatives of the Group attend industry fora such as the Wolfsberg Group, the British Bankers Association's Money Laundering Policy Group (MLPG) and the Money Laundering Advisory Panel (MLAP), to ensure that Barclays is influential in discussing and interpreting new legislation.

In 2008, the Group continued to follow developments in the Single European Payments Area (SEPA), with a view to developing its payments systems accordingly.

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Risk management

Financial crime risk management

Fraud risk and security risk

Fraud risk

The Group establishes and operates a fraud risk framework which measures overall fraud risk exposure and controls. Together with the Group-wide policies and reporting, this structure directs how fraud is managed.

GFCM is responsible for delivering the overall Group Fraud Strategy by providing oversight to Group and business units in the management of fraud risk.

The Group Fraud Strategy is designed to:

Contain existing risks through effective measurement, monitoring and robust anti-fraud systems, in line with the expansion of the bank

Identify emerging threats in order that effective fraud controls are embedded across the Group along with increased capability to manage risk

Identify and manage fraud incidents, ensuring regulatory and legal conformance, appropriate escalation and resolution of control issues to prevent further loss

Share fraud trends, intelligence and knowledge across the Group and between government bodies, law enforcement agencies, financial institutions and other key stakeholders

GFCM assesses fraud risk across existing and emerging products, channels, and jurisdictions. It has embedded a robust fraud reporting framework which tracks current exposure to identify risk and ensure adequate risk management capability and controls.

The Group's business units identify their appetite for fraud loss which informs and determines the overall fraud plan. Objectives are set around these plans and performance is monitored through reporting and oversight via appropriate Governance Committees at both business unit and Group level.

Barclays undertakes regular benchmarking performance reviews with relevant peer groups and maintains a conduit to ensure a two-way exchange of information and intelligence at government, trade and industry levels.

The Barclays Group Fraud Risk profile is tracked regularly through the review and challenge of the net losses and key risk metrics; these are then viewed against the overall Fraud Risk Profile (at the Fraud Risk Oversight Committee).

Aggregated fraud data is reported monthly to senior management. The performance of the business in combating fraud losses is measured against plan in line with the Principal Risk Policy. Key Risk Indicators are embedded in order that overall exposure can be established. As a result of this process, fraud can be measured and appropriate action taken to minimise or track significant issues.

Barclays overall reported fraud losses increased in 2008 in line with industry trends. Whilst industry and proprietary initiatives (online and Chip/PIN) have continued to pay dividends and reduce exposure in some areas, fraud increased in other areas and in geographies that do not have Chip and PIN technology.

In 2008, the Group implemented a new global fraud application system aimed at preventing first-party fraud.

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Compromised customer details continue to be a significant threat globally. GFCM continues to work closely with industry and other associated bodies to:

Protect any customer whose details may be compromised

Develop a standard approach for dealing with accounts that may be impacted by any data compromise or security breach

Reassure customers and provide points of contact for help and guidance.

Security risk

GFCM manages security risk. Its fundamental objective is to allow Barclays to operate in a safe and secure manner in all existing and potential future markets.

In pursuit of this objective, the security risk team gathers and shares current threat assessments across business areas, using intelligence from security and government agencies and in-country teams. It ensures that suitable policies and control systems are in place to protect Group business and high-risk personnel.

Barclays has developed and continues to improve a robust Group-wide people-screening process to protect the Group from those people who want to harm the organisation, by either joining as staff members or becoming involved with its operations.

Security risk is regularly reported by the businesses and reviewed via the Security Risk Management Committee, whose objectives are to:

Consider the latest management information and security threat assessments

Drive forward mitigating action to protect the Group from potential threats

Provide guidance to the design and effectiveness of the overall Barclays Security Risk framework

Ensure all security risk workstreams have been effectively integrated and implemented

Monitor corporate security profiles against the agreed plan, tracking issues in order that remedial action can be taken

Risk management

Statistical information

Statistical and other risk information

This section of the report contains supplementary information that is more detailed or contains longer histories than the data presented in the discussion. For commentary on this information, please refer to the preceding text (pages 80 to 118).

Credit risk management

Table 1: Risk Tendency by business

	2008	2007
	£m	£m
UK Retail Banking	520	470
Barclays Commercial Bank	400	305
Barclaycard	1,475	955
GRCB Western Europe	270	135
GRCB Emerging Markets	350	140
GRCB Absa	255	190
Barclays Capital	415	140
Barclays Wealth	20	10
Head office functions and other operations ^a	5	10
Risk Tendency by business	3,710	2,355

Table 2: Loans and advances

	2008	2007
	£m	£m
Retail businesses		
Customers	201,588	162,081
Total retail businesses	201,588	162,081
Wholesale businesses		
Banks	47,758	40,123
Customers	266,750	187,086
Total wholesale businesses	314,508	227,209
Loans and advances	516,096	389,290

Note

^a Head office functions and other operations comprises discontinued business in transition.

Risk management

Statistical information

Table 3: Maturity analysis of loans and advances to banks

At 31st December 2008	On demand	Not more than three months	Over three months but not more than six months	Over six months but	Over one year	Over three years	Over five years	Over ten years	Total
				not more than one year					
	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom	127	6,474	193	163	232			343	7,532
Other European Union	1,210	10,458	54	415	407	50	5	1	12,600
United States	1,310	11,215	7	676	324			84	13,616
Africa	584	595	51	1	51	861	8	38	2,189
Rest of the World	1,652	6,957	201	666	884	943	39	479	11,821
	4,883	35,699	506	1,921	1,898	1,854	52	945	47,758

At 31st December 2007	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year	Over three years	Over five years	Over ten years	Total
United Kingdom	796	4,069	56	92	114	20	1	370	5,518
Other European Union	2,977	7,745	74	88	95	116	7		11,102
United States	321	5,736	95	1,255	343	98	5,498	97	13,443
Africa	283	1,260	131	114	196	439	158		2,581
Rest of the World	1,505	3,336	90	1,640	512	362	15	19	7,479
Loans and advances to banks	5,882	22,146	446	3,189	1,260	1,035	5,679	486	40,123

Table 4: Interest rate sensitivity of loans and advances

At 31st December	2008			2007		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
	£m	£m	£m	£m	£m	£m
Banks	12,101	35,657	47,758	16,447	23,676	40,123
Customers	98,404	369,934	468,338	77,861	271,306	349,167

Table 5: Loans and advances to customers by industry

At 31st December	2008		2006	2005	2004 ^a
	£m	7£m	£m	£m	£m
Financial services	114,069	71,160	45,954	43,102	25,132
Agriculture, forestry and fishing	3,281	3,319	3,997	3,785	2,345

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Manufacturing	26,374	16,974	15,451	13,779	9,044
Construction	8,239	5,423	4,056	5,020	3,278
Property	22,155	17,018	16,528	16,325	8,992
Government	5,301	2,036	2,426	1,718	
Energy and water	14,101	8,632	6,810	6,891	3,709
Wholesale and retail, distribution and leisure	20,208	18,216	15,490	17,760	11,099
Transport	8,612	6,258	5,586	5,960	3,742
Postal and communication	7,268	5,404	2,180	1,313	834
Business and other services	37,373	30,363	26,999	22,529	23,223
Home loans ^b	135,384	106,751	92,477	85,206	79,164
Other personal	53,087	46,423	37,535	39,866	29,293
Finance lease receivables	12,886	11,190	10,142	9,088	6,938
Loans and advances to customers excluding reverse repurchase agreements	468,338	349,167	285,631	272,342	206,793
Reverse repurchase agreements	n/a	n/a	n/a	n/a	58,304
Loans and advances to customers	468,338	349,167	285,631	272,342	265,097

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b Excludes commercial property mortgages.

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Table 6: Loans and advances to customers in the UK

	2008	2007	2006	2005	2004 ^a
At 31st December	£m	£m	£m	£m	£m
Financial services	26,091	21,131	14,011	11,958	8,774
Agriculture, forestry and fishing	2,245	2,220	2,307	2,409	1,963
Manufacturing	11,340	9,388	9,047	8,469	5,684
Construction	4,278	3,542	2,761	3,090	2,285
Property	12,091	10,203	10,010	10,547	7,912
Government	20	201	6	6	
Energy and water	3,040	2,203	2,360	2,701	802
Wholesale and re tail distribution and leisure	14,421	13,800	12,951	12,747	9,356
Transport	3,467	3,185	2,745	2,797	1,822
Postal and communication	1,491	1,416	899	455	440
Business and other services	19,589	20,485	19,260	15,397	13,439
Home loans ^b	82,544	69,874	62,621	57,382	61,348
Other personal	31,490	28,691	27,617	30,598	26,872
Finance lease receivables	3,911	4,008	3,923	5,203	5,551
Loans and advances to customers in the UK	216,018	190,347	170,518	163,759	146,248

Loans and advances included in the above table for the years 2004 to 2007 have been reanalysed between wholesale and retail distribution and leisure, Home loans, and Other personal to reflect changes in classification of assets.

The industry classifications in Tables 7-9 have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the parent's predominant business may be in a different industry.

Table 7: Loans and advances to customers in other European Union countries

	2008	2007	2006	2005	2004 ^a
At 31st December	£m	£m	£m	£m	£m
Financial services	14,218	7,585	5,629	3,982	2,419
Agriculture, forestry and fishing	216	141	786	155	280
Manufacturing	8,700	4,175	3,147	2,254	2,021
Construction	1,786	1,159	639	803	716
Property	4,814	2,510	2,162	3,299	344
Government	1,089		6		
Energy and water	5,313	2,425	2,050	1,490	940
Wholesale and retail distribution and leisure	2,653	1,719	776	952	810
Transport	2,603	1,933	1,465	1,695	640
Postal and communication	962	662	580	432	111
Business and other services	5,490	3,801	2,343	3,594	3,795
Home loans ^b	33,644	21,405	18,202	16,114	11,828
Other personal	7,247	6,615	4,086	2,283	1,369
Finance lease receivables	3,328	2,403	1,559	1,870	937
Loans and advances to customers in other European Union countries	92,063	56,533	43,430	38,923	26,210

See note under Table 6.

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. The 2004 analysis excludes reverse repurchase agreements.

b Excludes commercial property mortgages.

Risk management

Statistical information

Table 8: Loans and advances to customers in the United States

At 31st December	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
Financial services	56,006	29,342	17,516	16,229	9,942
Agriculture, forestry and fishing		2	2	1	
Manufacturing	2,171	818	519	937	388
Construction	21	18	13	32	139
Property	549	568	1,714	329	394
Government	336	221	153	300	
Energy and water	3,085	1,279	1,078	1,261	891
Wholesale and retail distribution and leisure	1,165	846	403	794	466
Transport	415	137	128	148	186
Postal and communication	3,343	2,446	36	236	63
Business and other services	2,279	1,053	1,432	885	1,565
Home loans ^b	17	10	349	2	5,768
Other personal	7,702	3,256	2,022	1,443	845
Finance lease receivables	298	304	312	328	335
Loans and advances to customers in the United States	77,387	40,300	25,677	22,925	20,982

See note under Table 6.

Table 9: Loans and advances to customers in Africa

At 31st December	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
Financial services	1,956	3,472	2,821	4,350	186
Agriculture, forestry and fishing	817	956	889	1,193	102
Manufacturing	1,082	1,351	1,747	1,501	313
Construction	2,053	637	591	1,068	76
Property	3,485	2,433	1,987	1,673	87
Government	1,741	967	785	625	
Energy and water	118	356	156	193	184
Wholesale and re tail distribution and leisure	1,012	1,326	1,050	2,774	165
Transport	739	116	354	394	137
Postal and communication	293	231	241	27	52
Business and other services	4,699	1,285	2,631	1,258	1,012
Home loans ^b	19,018	15,393	11,223	11,630	214
Other personal	3,087	6,287	2,976	4,955	190
Finance lease receivables	5,130	4,357	4,240	1,580	41
Loans and advances to customers in Africa	45,230	39,167	31,691	33,221	2,759

See note under Table 6.

Table 10: Loans and advances to customers in the Rest of the World

At 31st December	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
Loans and advances	37,421	22,702	14,207	13,407	10,520
Finance lease receivables	219	118	108	107	74
Loans and advances to customers in the Rest of the World	37,640	22,820	14,315	13,514	10,594

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. The 2004 analysis excludes reverse re purchase agreements.

b Excludes commercial property mortgages.

Table 11: Maturity analysis of loans and advances to customers

	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
At 31st December 2008	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom									
Corporate lending	24,790	14,715	1,574	3,259	10,585	12,372	10,495	15,876	93,666
Other lending to customers in the United Kingdom	4,560	6,264	2,495	4,477	16,604	10,541	21,913	55,498	122,352
Total United Kingdom	29,350	20,979	4,069	7,736	27,189	22,913	32,408	71,374	216,018
Other European Union	5,254	17,618	2,707	5,681	11,808	10,272	10,138	28,585	92,063
United States	6,298	39,754	2,737	5,413	8,767	3,447	4,238	6,733	77,387
Africa	8,428	2,247	1,143	1,852	4,560	4,557	5,674	16,769	45,230
Rest of the World	3,832	8,150	2,167	1,545	9,267	4,008	5,666	3,005	37,640
Total	53,162	88,748	12,823	22,227	61,591	45,197	58,124	126,466	468,338

	On demand	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Total
At 31st December 2007	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom									
Corporate lending	26,557	15,737	2,453	3,834	8,474	8,358	10,718	11,643	87,774
Other lending to customers in the United Kingdom	4,384	4,717	2,106	3,597	11,517	8,699	19,325	48,228	102,573
Total United Kingdom	30,941	20,454	4,559	7,431	19,991	17,057	30,043	59,871	190,347
Other European Union	4,016	7,665	2,229	3,284	5,842	4,883	8,842	19,772	56,533
United States	3,053	20,205	3,430	5,938	1,904	2,498	2,658	614	40,300
Africa	6,806	4,243	881	1,969	5,568	4,124	2,285	13,291	39,167
Rest of the World	1,085	9,733	1,695	859	2,223	2,586	3,685	954	22,820
Loans and advances to customers	45,901	62,300	12,794	19,481	35,528	31,148	47,513	94,502	349,167

Table 12: Foreign outstandings in currencies other than the local currency

of the borrower for countries where this exceeds 1% of total Group assets

	As % of assets	Total £m	Banks and other financial institutions £m	Governments and official institutions £m	Commercial industrial and other private sectors £m
At 31st December 2008					
United States	3.1	63,614	16,724	2	46,888
Cayman Islands	1.2	23,765	271		23,494
At 31st December 2007					
United States	2.1	26,249	7,151	6	19,092
At 31st December 2006					
United States	1.7	16,579	7,307	89	9,183

At 31st December 2008, 2007 and 2006, there were no countries where Barclays had cross-currency loans to borrowers between 0.75% and 1% of total Group assets.

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Risk management

Statistical information

Table 13: Off-balance sheet and other credit exposures as at 31st December

	2008 £m	2007 £m	2006 £m
Off-balance sheet exposures			
Contingent liabilities	66,310	45,774	39,419
Commitments	260,816	192,639	205,504
On-balance sheet exposures			
Trading portfolio assets	185,637	193,691	177,867
Financial assets designated at fair value held on own account	54,542	56,629	31,799
Derivative financial instruments	984,802	248,088	138,353
Available for sale financial investments	64,976	43,072	51,703

Table 14: Notional principal amounts of credit derivatives as at 31st December

	2008 £m	2007 £m	2006 £m
Credit derivatives held or issued for trading purposes ^a	4,129,244	2,472,249	1,224,548

Table 15: Credit risk loans summary

	2008 £m	2007 £m	2006 £m	2005 £m	2004 ^b £m
At 31st December					
Impaired loans ^c	12,264	8,574	4,444	4,550	n/a
Non-accruing loans	n/a	n/a	n/a	n/a	2,115
Accruing loans where interest is being suspended with or without provisions	n/a	n/a	n/a	n/a	492
Other accruing loans against which provisions have been made	n/a	n/a	n/a	n/a	943
Subtotal	12,264	8,574	4,444	4,550	3,550
Accruing loans which are contractually overdue 90 days or more as to principal or interest	2,953	794	598	609	550
Impaired and restructured loans	483	273	46	51	15
Credit risk loans	15,700	9,641	5,088	5,210	4,115

Notes

a Includes credit derivatives held as economic hedges which are not designated as hedges for accounting purposes.

b 2004 does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

c Includes £4,117m (2007: £3,344m) of ABS CDO Super Senior exposures.

Table 16: Credit risk loans

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
At 31st December					
Impaired loans:^b					
United Kingdom	3,793	3,605	3,340	2,965	n/a
Other European Union	1,713	472	410	345	n/a
United States	4,397	3,703	129	230	n/a
Africa	1,996	757	535	831	n/a
Rest of the World	365	37	30	179	n/a
Total	12,264	8,574	4,444	4,550	n/a
Non-accrual loans:					
United Kingdom	n/a	n/a	n/a	n/a	1,509
Other European Union	n/a	n/a	n/a	n/a	243
United States	n/a	n/a	n/a	n/a	258
Africa	n/a	n/a	n/a	n/a	74
Rest of the World	n/a	n/a	n/a	n/a	31
Total	n/a	n/a	n/a	n/a	2,115
Accruing loans where interest is being suspended with or without provisions:					
United Kingdom	n/a	n/a	n/a	n/a	323
Other European Union	n/a	n/a	n/a	n/a	31
Africa	n/a	n/a	n/a	n/a	21
Rest of the World	n/a	n/a	n/a	n/a	117
Total	n/a	n/a	n/a	n/a	492
Other accruing loans against which provisions have been made:					
United Kingdom	n/a	n/a	n/a	n/a	865
Other European Union	n/a	n/a	n/a	n/a	27
United States	n/a	n/a	n/a	n/a	26
Africa	n/a	n/a	n/a	n/a	21
Rest of the World	n/a	n/a	n/a	n/a	4
Total	n/a	n/a	n/a	n/a	943
Accruing loans which are contractually overdue 90 days or more as to principal or interest:					
United Kingdom	1,656	676	516	539	513
Other European Union	562	79	58	53	34
United States	433	10	3		1
Africa	172	29	21	17	1
Rest of the World	130				1
Total	2,953	794	598	609	550
Impaired and restructured loans:					
United Kingdom	367	179		5	2
Other European Union	29	14	10	7	
United States	82	38	22	16	13
Africa		42	14	23	
Rest of the World	5				
Total	483	273	46	51	15
Total credit risk loans:					
United Kingdom	5,816	4,460	3,856	3,509	3,212
Other European Union	2,304	565	478	405	335
United States	4,912	3,751	154	246	298
Africa	2,168	828	570	871	117
Rest of the World	500	37	30	179	153
Credit risk loans	15,700	9,641	5,088	5,210	4,115
Notes					

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b Includes £4,117m (2007: £3,344m) of ABS CDO Super Senior Exposures.

Table 17: Potential problem loans

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
At 31st December					
United Kingdom	883	419	465	640	658
Other European Union	963	59	32	26	32
United States	431	964	21	12	27
Africa	140	355	240	248	67
Rest of the World	39		3	3	14
Potential problem loans^b	2,456	1,797	761	929	798

Table 18: Interest foregone on credit risk loans

	2008	2007	2006
	£m	£m	£m
Interest in come that would have been recognised under the original contractual terms			
United Kingdom	244	340	357
Rest of the World	235	91	70
Total	479	431	427

Interest income of approximately £195m (2007: £48m, 2006: £72m) from such loans was included in profit, of which £72m (2007: £26m, 2006: £49m) related to domestic lending and the remainder related to foreign lending.

In addition, a further £159m (2007: £113m, 2006: £98m) was recognised arising from impaired loans. Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the expected future cash flows for the purpose of measuring the impairment loss. £54m (2007: £93m, 2006: £88m) of this related to domestic impaired loans and the remainder related to foreign impaired loans.

Table 19: Analysis of impairment/provision charges

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
At 31st December					
Impairment charge/net specific provisions charge					
United Kingdom	1,817	1,593	1,880	1,382	1,021
Other European Union	587	123	92	75	102
United States	1,519	374	12	76	57
Africa	454	214	143	37	27
Rest of the World	207	2	(53)	4	103
Impairment on loans and advances	4,584	2,306	2,074	1,574	1,310
Impairment on available for sale assets	382	13	86	4	n/a
Impairment on reverse repurchase agreements	124				
Impairment charge	5,090	2,319	2,160	1,578	1,310
Total net specific provisions charge	n/a	n/a	n/a	n/a	n/a
General provisions (release)/charge	n/a	n/a	n/a	n/a	(206)
Other credit provisions charge/(release)	329	476	(6)	(7)	(11)
Impairment/provision charges	5,419	2,795	2,154	1,571	1,093

Notes

a Does not reflect the application of IA S 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b Includes £nil (2007: £951m) of ABS CDO Super Senior and SIV-lites exposures.

Table 20: Impairment/provisions charges ratios (Loan loss ratios)

	2008	2007	2006	2005	2004 ^a
	%	%	%	%	%
Impairment/provisions charges as a percentage of average loans and advances for the year:					
Specific provisions charge	n/a	n/a	n/a	n/a	0.40
General provisions charge	n/a	n/a	n/a	n/a	(0.07)
Impairment charge	1.01	0.64	0.66	0.58	n/a
Total	1.01	0.64	0.66	0.58	0.33
Amounts written off (net of recoveries)	0.61	0.49	0.61	0.50	0.40

Table 21: Analysis of allowance for impairment/provision for bad and doubtful debts

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
Impairment allowance/Specific provisions					
United Kingdom	2,947	2,526	2,477	2,266	1,683
Other European Union	963	344	311	284	149
United States	1,561	356	100	130	155
Africa	857	514	417	647	70
Rest of the World	246	32	30	123	90
Specific provision balances	n/a	n/a	n/a	n/a	2,147
General provision balances	n/a	n/a	n/a	n/a	564
Allowance for impairment provision balances	6,574	3,772	3,335	3,450	2,711
Average loans and advances for the year	453,413	357,853	313,614	271,421	328,134

Table 22: Allowance for impairment/provision balance ratios

	2008	2007	2006	2005	2004 ^a
	%	%	%	%	%
Allowance for impairment/provision balance at end of year as a percentage of loans and advances at end of year:					
Specific provision balances	n/a	n/a	n/a	n/a	0.62
General provision balances	n/a	n/a	n/a	n/a	0.16
Impairment balance	1.27	0.97	1.05	1.14	n/a
Total	1.27	0.97	1.05	1.14	0.78
Note					

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Table 23: Movements in allowance for impairment/provisions charge for bad and doubtful debts

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
Allowance for impairment/provision balance at beginning of year	3,772	3,335	3,450	2,637	2,946
Acquisitions and disposals	307	(73)	(23)	555	21
Unwind of discount	(135)	(113)	(98)	(76)	n/a
Exchange and other adjustments	791	53	(153)	125	(33)
Amounts written off	(2,919)	(1,963)	(2,174)	(1,587)	(1,582)
Recoveries	174	227	259	222	255
Impairment/provision charged against profit ^b	4,584	2,306	2,074	1,574	1,104
Allowance for impairment/provision balance at end of year	6,574	3,772	3,335	3,450	2,711

Table 24: Amounts written off

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
United Kingdom	(1,514)	(1,530)	(1,746)	(1,302)	(1,280)
Other European Union	(162)	(143)	(74)	(56)	(63)
United States	(1,044)	(145)	(46)	(143)	(50)
Africa	(187)	(145)	(264)	(81)	(15)
Rest of the World	(12)		(44)	(5)	(174)
Amounts written off	(2,919)	(1,963)	(2,174)	(1,587)	(1,582)

Table 25: Recoveries

	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m
United Kingdom	131	154	178	160	217
Other European Union	4	32	18	13	9
United States	1	7	22	15	14
Africa	36	34	33	16	4
Rest of the World	2		8	18	11
Recoveries	174	227	259	222	255
Notes					

a Does not reflect the application of IA S 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b Does not reflect the impairment of available for sale assets or other credit risk provisions.

Table 26: Impairment allowances/provision charged against profit

	2008 £m	2007 £m	2006 £m	2005 £m	2004 ^a £m
New and increased impairment allowance/specific provision charge:					
United Kingdom	2,160	1,960	2,253	1,763	1,358
Other European Union	659	192	182	113	131
United States	1,529	431	60	105	85
Africa	526	268	209	109	47
Rest of the World	242	20	18	39	134
	5,116	2,871	2,722	2,129	1,755
Reversals of impairment allowance/specific provision charge:					
United Kingdom	(212)	(213)	(195)	(221)	(120)
Other European Union	(68)	(37)	(72)	(25)	(20)
United States	(9)	(50)	(26)	(14)	(14)
Africa	(36)	(20)	(33)	(56)	(16)
Rest of the World	(33)	(18)	(63)	(17)	(20)
	(358)	(338)	(389)	(333)	(190)
Recoveries	(174)	(227)	(259)	(222)	(255)
Net impairment allowance/specific provision charge ^b	4,584	2,306	2,074	1,574	1,310
General provision (release)/charge	n/a	n/a	n/a	n/a	(206)
Net charge to profit	4,584	2,306	2,074	1,574	1,104

Table 27: Total impairment/specific provision charges for bad and doubtful debts by industry

	2008 £m	2007 £m	2006 £m	2005 £m	2004 ^a £m
United Kingdom:					
Financial services	76	32	64	22	(1)
Agriculture, forestry and fishing	4		5	9	
Manufacturing	118	72	1	120	28
Construction	15	14	17	14	10
Property	80	36	15	18	(42)
Energy and water	1	1	(7)	1	3
Wholesale and retail distribution and leisure	59	118	88	39	66
Transport	3	3	19	(27)	(19)
Postal and communication		15	15	3	(1)
Business and other services	234	81	133	45	64
Home loans	28	1	4	(7)	17
Other personal	1,178	1,187	1,526	1,142	894
Finance lease receivables	21	33		3	2
	1,817	1,593	1,880	1,382	1,021
Overseas	2,767	713	194	192	289
Impairment/specific provision charges	4,584	2,306	2,074	1,574	1,310

The category 'Other personal' now includes credit cards, personal loans, second liens and personal overdrafts.

The industry classifications in Tables 27, 28 and 29 have been prepared at the level of the borrowing entity. This means that a loan

to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the parent's predominant business may be in a different industry.

Notes

- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.
- b Does not reflect the impairment of available for sale assets , reverse repurchase agreements or other credit risk provisions.

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Table 28: Allowance for impairment/specific provision for bad and doubtful debts by industry

	2008		2007		2006		2005		2004 ^a	
	£m	%	£m	%	£m	%	£m	%	£m	%
United Kingdom:										
Financial services	81	1.2	103	2.7	67	2.0	26	0.8	7	0.3
Agriculture, forestry and fishing	1	0.0	5	0.1	17	0.5	12	0.3	4	0.2
Manufacturing	185	2.8	65	1.7	85	2.5	181	5.2	37	1.7
Construction	18	0.3	16	0.4	16	0.5	13	0.4	6	0.3
Property	114	1.7	54	1.4	26	0.8	24	0.7	26	1.2
Energy and water	1	0.0	1				18	0.5	23	1.0
Wholesale and retail distribution and leisure	43	0.7	102	2.7	81	2.4	99	2.9	70	3.3
Transport		0.0	11	0.3	24	0.7	32	0.9	55	2.6
Postal and communication	33	0.5	25	0.7	12	0.4	2	0.1	13	0.6
Business and other services	236	3.6	158	4.2	186	5.6	102	3.0	105	4.9
Home loans	46	0.7	15	0.4	10	0.3	50	1.4	58	2.7
Other personal	2,160	32.9	1,915	50.8	1,953	58.6	1,696	49.2	1,265	58.9
Finance lease receivables	29	0.4	56	1.5			11	0.3	14	0.7
	2,947	44.8	2,526	67.0	2,477	74.3	2,266	65.7	1,683	78.4
Overseas	3,627	55.2	1,246	33.0	858	25.7	1,184	34.3	464	21.6
Total	6,574	100.0	3,772	100.0	3,335	100.0	3,450	100.0	2,147	100.0

See note under Table 27.

Table 29: Analysis of amounts written off and recovered by industry

	Amounts written off for the year					Recoveries of amounts previously written off				
	2008	2007	2006	2005	2004 ^a	2008	2007	2006	2005	2004 ^a
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom:										
Financial services	88	6	13	2	7	4	1		1	3
Agriculture, forestry and fishing	6	5	8	3	2		2	1		1
Manufacturing	53	83	73	47	79	8	7	21	11	30
Construction	19	23	17	15	13	2	3	2	1	2
Property	27	16	23	4	2	2	10	6	1	69
Energy and water	1		1	22	9			2		2
Wholesale and retail distribution and leisure	137	109	120	85	55	7	12	14	25	7
Transport	10	13	11	29	44	1		1	10	15
Postal and communication	3	3	5	15	2					1
Business and other services	153	83	124	83	96	10	22	17	14	16
Home loans	4	1		2	19	1	1	7	4	5
Other personal	960	1,164	1,351	992	948	88	96	107	92	65
Finance lease receivables	53	24		3	4	8			1	1
	1,514	1,530	1,746	1,302	1,280	131	154	178	160	217
Overseas	1,405	433	428	285	302	43	73	81	62	38
Total	2,919	1,963	2,174	1,587	1,582	174	227	259	222	255

See note under Table 27.

Note

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- a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Table 30: Total impairment allowance/(provision) coverage of credit risk loans

	2008	2007	2006	2005	2004 ^a
	%	%	%	%	%
United Kingdom	50.7	56.6	64.2	64.6	68.1
Other European Union	41.8	60.9	65.1	70.1	60.9
United States	31.8	9.5	64.9	52.8	57.0
Africa	39.5	62.1	73.2	74.3	68.4
Rest of the World	49.2	86.5	100.0	68.7	71.9
Total coverage of credit risk loans	41.9	39.1	65.6	66.2	66.9
Total coverage of credit risk loans excluding ABS CDO Super Senior exposure	48.0	55.3	65.6	66.2	66.9

Table 31: Total impairment allowance/(provision) coverage of potential credit risk lending (CRLs and PPLs)

	2008	2007	2006	2005	2004 ^a
	%	%	%	%	%
United Kingdom	44.0	51.8	57.3	54.6	56.5
Other European Union	29.5	55.1	61.0	65.9	55.6
United States	29.2	7.6	57.1	50.4	52.3
Africa	37.1	43.4	51.5	57.8	43.5
Rest of the World	45.5	86.5	91.0	67.6	65.9
Total coverage of potential credit risk lending	36.2	33.0	57.0	56.2	56.0
Total coverage of potential credit risk lenders excluding ABS CDO Super Senior exposure	39.6	47.7	57.0	56.2	56.0

Allowance coverage of credit risk loans and potential credit risk loans excluding the drawn ABS CDO Super Senior exposure decreased to 48.0% (31st December 2007: 55.3%) and 39.6% (31st December 2007: 47.7%), respectively. The decrease in these ratios reflected a change in the mix of credit risk loans and potential credit risk loans: unsecured retail exposures, where the recovery outlook is relatively low, decreased as a proportion of the total as the collections and underwriting processes were improved. Secured retail and wholesale and corporate exposures, where the recovery outlook is relatively high, increased as a proportion of credit risk loans and potential credit risk loans.

Note

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

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Risk management

Supervision and regulation

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

In the UK, the FSA is the independent body responsible for the regulation of deposit taking, life insurance, home mortgages, general insurance and investment business. Barclays Bank PLC is authorised by the FSA to carry on a range of regulated activities within the UK and is subject to consolidated supervision by the FSA. In its role as supervisor, the FSA seeks to ensure the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers. The FSA's continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

The FSA adopts a risk-based approach to supervision. The starting point for supervision of all financial institutions is a systematic analysis of the risk profile for each authorised firm. The FSA has adopted a homogeneous risk, processes and resourcing model in its approach to its supervisory responsibilities (known as the ARROW model) and the results of the risk assessment are used by the FSA to develop a risk mitigation programme for a firm. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities, liquidity and rules of business conduct.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme) where an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in Sterling or other EEA currencies (including the Euro) are covered by the Scheme. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state.

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain,

Switzerland, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Financial Services Agency of Japan, the Australian Securities and Investments Commission, the Monetary Authority of Singapore, the China Banking Regulatory Commission and the Reserve Bank of India); Africa and the Middle East (various regulatory authorities including the South African Reserve Bank and the Financial Services Board and the regulatory authorities of the United Arab Emirates) and the United States of America (including the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Securities and Exchange Commission).

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

Barclays operations in South Africa, including Absa Group Limited, are supervised and regulated by the South African Reserve Bank (SARB) and the Financial Services Board (FSB). SARB oversees the banking industry and follows a risk-based approach to supervision whilst the FSB oversees the non-banking financial services industry and focuses on enhancing consumer protection and regulating market conduct.

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US banking subsidiaries are subject to a comprehensive regulatory structure involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended (BHC Act), the Foreign Bank Supervision Enhancement Act of 1991 and the USA PATRIOT Act of 2001. Such laws impose restrictions on the activities of Barclays, including its US banking subsidiaries and the Bank's US branches, as well as prudential restrictions, such as limits on extensions of credit by the Bank's US branches and the US banking subsidiaries to affiliates. The Bank's New York and Florida branches are subject to extensive federal and state supervision and regulation by the FRB and the New York and Florida banking supervisors. Barclays Global Investors, NA, a federally chartered trust company, is subject to supervision and regulation by the OCC, and Barclays Bank Delaware, a Delaware-chartered commercial bank, is subject to supervision and regulation by the Delaware banking supervisor and the Federal Deposit Insurance Corporation (FDIC). Only the deposits of Barclays Bank Delaware are insured by the FDIC.

Barclays PLC, Barclays Bank PLC and Barclays Group US Inc. are bank

holding companies registered with the FRB. Each has elected to be treated as a financial holding company under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to banking organisations that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain the financial holding company status of each of Barclays PLC, Barclays Bank PLC and Barclays Group US Inc., Barclays Bank PLC is required to meet or exceed certain capital ratios and to be deemed to be well managed, and Barclays Bank Delaware and Barclays Global Investors, NA must also meet certain capital requirements, be deemed to be well managed and must have at least a satisfactory rating under the Community Reinvestment Act of 1977.

Barclays investment banking operations are subject to ongoing supervision and regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations as part of a comprehensive scheme of regulation of all aspects of the securities business under the US federal securities laws.

Barclays subsidiaries in the US are also subject to regulation by applicable federal and state regulators of their activities in the asset management, investment advisory, mutual fund and mortgage lending businesses. The US operations and subsidiaries of Barclays are subject to extensive laws and regulations designed to combat money laundering and terrorist financing and to enforce compliance with US economic sanctions.

Regulatory Developments

In the wake of the financial crisis there will be regulatory change that will have a substantial impact on all financial institutions, including the Group. The full extent of this impact is not yet clear. Programmes to reform the global regulatory framework were agreed first by G8 Finance Ministers in April 2008 and subsequently by G20 Heads of Government in November 2008. In the EU, Finance Ministers agreed a roadmap for regulatory reform in May 2008. There is a substantial degree of commonality to these programmes covering issues of capital and liquidity regulation, risk management and accounting standards. These programmes will be further developed and implemented in 2009.

In the UK, in response to the financial crisis, the Chairman of the FSA has been requested by the Chancellor of the Exchequer to undertake a review of banking regulation. The Chancellor has indicated that he will be presenting a White Paper on the supervision of banking in spring 2009 with the expectation that proposals for legislation will be presented to Parliament. He has also commissioned Sir David Walker to review the corporate governance of the UK banking industry. The results of this review are expected before the end of 2009. The FSA has re-examined its regulatory requirements and processes, substantially increasing regulatory capital requirements in October 2008. It has also been undertaking a Supervisory Enhancement Programme that will increase both the resources devoted to supervision and the intensity of supervision.

On 21st February 2009, the Banking Act 2009 came into force which provides a permanent regime to allow the FSA, the UK Treasury and the Bank of England (the Tripartite Authorities) to resolve failing banks in the UK. The Banking Act aims to balance the need to protect depositors and prevent systemic failure with the potentially adverse consequences that using powers to deal with those events could have on private law rights, and, as a consequence, wider markets and investor confidence.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or Bank of England entity, all or some of the securities issued by a bank. The share transfer order can extend to a wide range of securities including shares and bonds issued by a UK Bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached. Power also exists to override any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of both share transfer orders and property appropriation. In the case of share transfer orders any compensation will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer.

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

Amendments are being made to the EU framework of directives, including to the Capital Requirements Directive and to the Directive on Deposit Guarantee Schemes. Further amendments to EU regulatory requirements are likely as the EU develops its response to the financial crisis, including the structure of the regulatory system in Europe as proposed in the report of a high-level Commission group published on 25 February 2009.

In the United States, as elsewhere, recent market disruptions and economic conditions have led to numerous proposals for changes and significant increases in the regulation of the financial services industry. However, given the current environment and status of such proposals, it is difficult to determine the nature and form of any regulation that may arise in the United States from any such proposals.

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Governance

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Accelerate growth of global businesses

Lehman Brothers Acquisition

The acquisition of Lehman Brothers North American businesses accelerated the execution of our strategy of diversification by geography and business in pursuit of profitable growth on behalf of our shareholders. It has created a premier integrated global investment banking company with a leading presence in all major markets and across all major lines of business including: equity capital markets, debt capital markets, mergers and acquisitions, commodities trading and foreign exchange. For Barclays Wealth, the acquisition gives us a strong platform from which to extend our wealth management offering in the Americas.

All-American Equity

Business Research Team

No.1

40° 45' 39"N

New York 7am EST

Board and Executive Committee

1. Marcus Agius

Group Chairman (Age 62)

Marcus has an extensive background in banking, having worked at Lazard from 1972 to 2006. He also has experience of chairing large organisations, including BAA plc and Lazard in London. Marcus is Senior Independent Director of the British Broadcasting Corporation (BBC).

Term of office Marcus joined the Board in September 2006 as a non-executive Director and was appointed Group Chairman on 1st January 2007. Marcus was last re-elected by shareholders at the AGM in 2007, following his appointment.

Independent On appointment

External appointments Senior Independent Director of the BBC since 2006. Trustee to the Board of the Royal Botanic Gardens, Kew. Chairman of The Foundation and Friends of the Royal Botanic Gardens, Kew. Chairman of Lazard in London and Deputy Chairman of Lazard LLC until 2006. Chairman of BAA plc until 2006.

Committee membership Chairman of the Board Corporate Governance and Nominations Committee since January 2007. Member of the Board HR and Remuneration Committee since January 2007.

2. David Booth

Non-executive Director (Age 54)

David currently manages his own venture capital investments, having retired from the Management Committee of Morgan Stanley in 1997. David was employed by Morgan Stanley from 1982 to 1992, and again from 1995 to 1997. He held various positions there, including Head of Government Bond Trading, Head of Mortgage Trading, Sales and Finance and Head of Global Operations and Technology.

Term of office David joined the Board in May 2007. David was last re-elected by shareholders at the AGM in 2008, following his appointment.

Independent Yes

External appointments Director of East Ferry Investors, Inc., Trustee of the Brooklyn Botanic Garden. Chair of the Brooklyn Botanic Garden Investment Committee. Various positions at Morgan Stanley & Co. until 1997. Discount Corporation of New York until 1993.

Committee membership Member of the Board Risk Committee since January 2008.

3. Sir Richard Broadbent

Senior Independent Director (Age 55)

Sir Richard has experience of both the private and public sector having worked in high-level banking roles and the Civil Service. He was the Executive Chairman of HM Customs and Excise from 2000 to 2003 and was formerly a member of the Group Executive Committee of Schroders PLC and a non-executive Director of the Securities Institute. Sir Richard is Chairman of Arriva PLC.

Term of office Sir Richard joined the Board in September 2003 and was appointed Senior Independent Director on 1st September 2004. Sir Richard was last re-elected by shareholders at the AGM in 2006.

Independent Yes

External appointments Chairman of Arriva PLC since 2004. Executive Chairman of HM Customs and Excise until 2003. Former Group Executive Committee member of Schroders PLC. Non-executive Director of the Securities Institute until 1995.

Committee membership Chairman of the Board Risk Committee since January 2006 (member since April 2004). Chairman of the Board HR and Remuneration Committee since January 2007 (member since April 2004). Member of the Board Corporate Governance and Nominations Committee since September 2004.

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4. Leigh Clifford, AO

Non-executive Director (Age 61)

Leigh is Chairman of Qantas Airways Limited. He previously worked for the Rio Tinto Group, where he was a Director of Rio Tinto PLC from 1994 and Rio Tinto Limited from 1995 and was Chief Executive of the Rio Tinto Group from 2000 until 2007.

Term of office Leigh joined the Board in October 2004. Leigh was last re-elected by shareholders at the AGM in 2007.

Independent Yes

External appointments Chairman of Qantas Airways Limited since November 2007. Member of the Bechtel Board of Counsellors since May 2007. Senior Adviser to Kohlberg Kravis Roberts & Co since January 2009. Director of the Murdoch Children's Research Institute. Board Member of the National Gallery of Victoria Foundation. Chief Executive of Rio Tinto until 2007. Director of Freeport-McMoran Copper & Gold Inc. until 2004.

Committee membership Member of the Board HR and Remuneration Committee since July 2005. Member of the Barclays Asia Pacific Advisory Committee.

5. Fulvio Conti

Non-executive Director (Age 61)

Fulvio is currently Chief Executive Officer and General Manager of Enel SpA, the Italian energy group, where he was previously Chief Financial Officer from 1999-2005. Fulvio has held a number of high-level financial roles, including Chief Financial Officer and General Manager of Telecom Italia and General Manager and Chief Financial Officer of Ferrovie dello Stato, the Italian national railway. He was also head of the accounting, finance and control department of Montecatini and was in charge of finance at Montedison-Compart, overseeing the financial restructuring of the group. He has held positions in finance and operations in various affiliates of Mobil Oil Corporation in Italy and Europe.

Term of office Fulvio joined the Board in April 2006. Fulvio was last re-elected by shareholders at the AGM in 2008.

Independent Yes

External appointments Chief Executive of Enel SpA since 2005. Director of AON Corporation since January 2008. Chief Financial Officer and General Manager of Telecom Italia until 1999. General Manager and Chief Financial Officer of Ferrovie dello Stato until 1998.

Committee membership Member of the Board Audit Committee since September 2006.

6. Professor Dame Sandra Dawson

Non-executive Director (Age 62)

Sandra is KPMG Professor of Management Studies at the University of Cambridge and Master of Sidney Sussex College, Cambridge. Sandra was Director of the Judge Business School at Cambridge until September 2006 and she has held a range of non-executive posts in organisations including Rand Europe (UK), JP Morgan Fleming Claverhouse Investment Trust and Riverside Mental Health Trust.

Term of office Sandra joined the Board in March 2003. Sandra will retire from the Board at the 2009 AGM in April.

Independent Yes

External appointments KPMG Professor of Management Studies, University of Cambridge since 1995. Master of Sidney Sussex College, Cambridge since 1999. Director and Trustee of Oxfam since 2006. Deputy Vice Chancellor, University of Cambridge since 2008. Chairman, Executive Steering Committee, ESRC Advanced Institute of Management. Director of Cambridge Econometrics until 2007. Director of Judge Business School, University of Cambridge until 2006. Director of Rand Europe (UK) until 2004. Director of JP Morgan Fleming Claverhouse Investment Trust until 2003.

Committee membership Member of the Board Audit Committee since August 2003.

7. Sir Andrew Likierman

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Non-executive Director (Age 65)

Sir Andrew is Chairman of the National Audit Office, having held a number of public roles in the financial services sector, including Managing Director, Financial Management, Reporting and Audit and Head of the Government Accountancy Service at HM Treasury and non-executive Director of the Bank of England. Sir Andrew is also Dean of the London Business School where he was previously Professor of Management Practice in Accounting. He has been at the London Business School from 1974-1976, 1979-1993 and since 2004.

Term of office Sir Andrew joined the Board in September 2004. Sir Andrew was last re-elected by shareholders at the AGM in 2007.

Independent Yes

External appointments Dean of the London Business School since January 2009. Chairman of the National Audit Office since December 2008. Director of the Institute for Government since September 2008. Chairman of Applied Intellectual Capital Inc. until 2008. Non-executive Director of the Bank of England until 2008. Non-executive Director and Vice-Chairman of the Tavistock and Portman NHS Trust until 2008. Non-executive Director and Chairman of the MORI Group until 2005. Managing Director, Financial Management, Reporting and Audit and Head of the Government Accountancy Service at HM Treasury until 2004.

Committee membership Member of the Board Audit Committee since September 2004. Member of the Board Risk Committee since September 2004.

8. Sir Michael Rake

Non-executive Director (Age 61)

Sir Michael is currently Chairman of BT Group PLC and Chairman of the UK Commission for Employment and Skills. Sir Michael previously worked at KPMG from 1974-2007 where he worked for a number of years in Continental Europe and the Middle East. He was Senior Partner of the UK firm from 1998-2000 and Chairman of KPMG International from 2002-2007.

Term of office Sir Michael joined the Board in January 2008. Sir Michael was last re-elected by shareholders at the AGM in 2008, following his appointment.

Independent Yes

External appointments Chairman of BT Group PLC since 2007. Director of the Financial Reporting Council since 2007. Chairman of the UK Commission for Employment and Skills since 2007. Director of the McGraw-Hill Companies since 2007. Chairman of KPMG International until 2007. Chairman of Business in the Community from 2004 until 2007.

Committee membership Member of the Board Audit Committee since January 2008. He will succeed Stephen Russell as Chairman of the Board Audit Committee in March 2009.

9. Sir Nigel Rudd, DL

Deputy Chairman

Non-executive Director (Age 62)

Sir Nigel is non-executive Chairman of Pendragon PLC and BAA Limited. He is also Deputy Chairman of Invensys plc and a non-executive Director of BAE Systems PLC and Sappi Limited. He was formerly Chairman of Alliance Boots PLC.

Term of office Sir Nigel joined the Board in February 1996 and was appointed Deputy Chairman in September 2004. Sir Nigel will retire from the Board at the 2009 AGM in April.

Independent Yes

External appointments Chairman of Pendragon PLC since 1989. Non-executive Director and Deputy Chairman of Invensys plc since January 2009. Chairman of Alliance Boots PLC until 2007. Director of Pilkington PLC until 2006. Director of Kidde PLC until 2003.

Committee membership Member of the Board Corporate Governance and Nominations Committee since October 2001. Chairman of the Barclays Brand and Reputation Committee.

10. Stephen Russell

Non-executive Director (Age 63)

Stephen was Chief Executive of Boots Group PLC from 2000 until 2003, having worked for Boots since 1967. He has held a number of non-executive positions and is currently a non-executive Director of Network Rail and Network Rail Infrastructure Limited. He is a trustee of St. John's Ambulance and Tommy's the Baby Charity, is on the Council of Nottingham University and is Chairman of Business Control Solutions Group.

Term of office Stephen joined the Board in October 2000 on completion of the acquisition of Woolwich PLC. Stephen was last re-elected by shareholders at the AGM in 2007.

Independent Yes

External appointments Non-executive Director of Network Rail since September 2007. Trustee of St John's Ambulance since 2005. Chairman of Business Control Solutions Group since 2005. Trustee of Tommy's the Baby Charity since 2003. Member of the Council of Nottingham University since 2003. Chief Executive of Boots Group PLC until 2003.

Committee membership Chairman of the Board Audit Committee since April 2003 (member since October 2000). He will be succeeded by Sir Michael Rake as Chairman of the Board Audit Committee in March 2009. Member of the Board Corporate Governance and Nominations Committee since September 2004. Member of the Board Risk Committee since October 2001 (Chairman from September 2004-December 2005).

11. Sir John Sunderland

Non-executive Director (Age 63)

Sir John was Chairman of Cadbury Schweppes PLC until July 2008 having worked at Cadbury's in various roles, including that of Chief Executive, since 1968. He is Deputy President of the Chartered Management Institute, a Director of the Financial Reporting Council, an Adviser to CVC Capital Partners, an Association Member of BUPA and a Governor of both Reading and Aston University Councils.

Term of office Sir John joined the Board in June 2005. Sir John was last re-elected by shareholders at the AGM in 2008.

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Independent Yes

External appointments Deputy President of the Chartered Management Institute since 2008 (President 2007-2008). Director of the Financial Reporting Council since 2004. Adviser to CVC Capital Partners. Association Member of BUPA. Governor, Aston University Council. Governor, Reading University Council. Chairman of Cadbury Schweppes PLC until July 2008. Deputy President of the CBI to June 2008 (member since 2003 and President until December 2006). President of ISBA (the Incorporated Society of British Advertisers) until 2005. President of the Food and Drink Federation until 2005. Non-executive Director of the Rank Group PLC until 2006. Former Advisory Board Member of Trinsum Group.

Committee membership Member of the Board Corporate Governance and Nominations Committee since September 2006. Member of the Board HR and Remuneration Committee since July 2005.

12. Patience Wheatcroft

Non-executive Director (Age 57)

Patience was an established financial journalist and national newspaper editor, having worked as Editor of the Sunday Telegraph from 2006 to 2007 and Business and City Editor of The Times from 1997-2006. She is a non-executive Director of Shaftesbury PLC, a member of the UK/India Round Table and a member of the British Olympic Association Advisory Board. She is also a member of the Council of the Royal Albert Hall and Chair of the Forensic Audit Panel.

Term of office Patience joined the Board in January 2008. Patience was last re-elected by shareholders at the AGM in 2008 following her appointment.

Independent Yes

External appointments Non-executive Director of Shaftesbury PLC since 2008. Member of the UK/India Round Table. Member of the British Olympic Association Advisory Board since 2007. Member of the Council of the Royal Albert Hall. Chair of the Forensic Audit Panel since 2008. Editor of the Sunday Telegraph until 2007. Business and City Editor of The Times until 2006.

Committee membership Member of the Barclays Brand and Reputation Committee.

13. John Varley

Group Chief Executive

Executive Director and Chairman of Executive Committee (Age 52)

John was appointed Group Chief Executive of Barclays on 1st September 2004, prior to which he had been Group Deputy Chief Executive from 1st January 2004. He joined Barclays in 1982 and has held various positions across the Group, including the position of Group Finance Director from 2000 until the end of 2003. He was Chief Executive of Retail Financial Services from 1998 to 2000 and Chairman of the Asset Management Division from 1995 to 1998. John is a non-executive Director of AstraZeneca PLC. He is also Chairman of Business Action on Homelessness, President of the Employer's Forum on Disability, Honorary President of the UK Drug Policy Commission and a member of the International Advisory Panel of the Monetary Authority of Singapore.

Term of office John joined the Executive Committee in September 1996 and was appointed to the Board in June 1998. John was last re-elected by shareholders at the AGM in 2007.

External appointments Non-executive Director of AstraZeneca PLC since 2006. Non-executive Director of British Grolux Investments Limited since 1999. Chairman of Business Action on Homelessness since 2006. President of the Employer's Forum on Disability since 2005. Honorary President of the UK Drug Policy Commission since 2007. Member of the International Advisory Panel of the Monetary Authority of Singapore since 2006.

14. Robert E Diamond Jr

President, Barclays PLC and CEO, Investment Banking and Investment Management

Executive Director and member of Executive Committee (Age 57)

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Bob is responsible for the Investment Banking and Investment Management business of the Barclays Group, comprising of Barclays Capital, Barclays Global Investors and Barclays Wealth. He previously worked for Morgan Stanley and CS First Boston, where he was Vice-Chairman and Head of Global Fixed Income and Foreign Exchange.

Term of office Bob was appointed President of Barclays PLC and became an executive Director in June 2005. He has been a member of the Barclays Executive Committee since September 1997. Bob was last re-elected by shareholders at the AGM in 2006, following his appointment.

External appointments Chairman of Old Vic Productions PLC since September 2007.

15. Christopher Lucas

Group Finance Director

Executive Director and member of Executive Committee (Age 48)

Chris has worked across financial services for most of his career, including three years in New York as Head of the US Banking Audit Practice of PricewaterhouseCoopers LLP. Chris joined Barclays from PricewaterhouseCoopers LLP, where he was UK Head of Financial Services and Global Head of Banking and Capital Markets. He was Global Relationship Partner for Barclays for the 1999-2004 financial years and subsequently held similar roles for other global financial services organisations.

Term of office Chris was appointed Group Finance Director and became a member of the Executive Committee in April 2007. Chris was last re-elected by shareholders at the AGM in 2007, following his appointment.

External appointments UK Head of Financial Services and Global Head of Banking and Capital Markets of PricewaterhouseCoopers LLP until 2006.

16. Frederik (Frits) Seegers

Chief Executive, Global Retail and Commercial Banking

Executive Director and member of Executive Committee (Age 50)

Frits is responsible for the Global Retail and Commercial Banking business of the Barclays Group, which includes UK Retail Banking, Barclays Commercial Bank, Barclaycard, GRCB Western Europe, GRCB Emerging Markets and GRCB Absa. Frits joined Barclays from Citigroup where he held a number of senior positions over the 17 years he worked there. Most recently, he was CEO Global Consumer Group with a remit covering all retail operations in Europe, the Middle East and Africa. He was also a member of the Citigroup Operating Committee and the Citigroup Management Committee. He was CEO of Consumer Banking for Asia Pacific, covering 11 consumer markets, between 2001 and 2004. Under his leadership, this region was the fastest growing part of Citigroup. Frits was a non-executive Director of Absa Group Limited from 2006 until February 2009.

Term of office Frits joined the Board and the Executive Committee in July 2006. Frits was last re-elected by shareholders at the AGM in 2007, following his appointment.

External appointments Chief Executive Officer of Citigroup International PLC until 2006.

Directors report

Business Review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31st December 2008 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a Business Review). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company).

The information that fulfils the requirements of the Business Review can be found in the following sections of the Annual Report:

	Pages
<u>Key performance indicators</u>	6-9
<u>Financial Review</u>	15-65
<u>Sustainability</u>	66-68
<u>Risk factors</u>	70-74

which are incorporated into this report by reference.

Profit Attributable

The profit attributable to equity shareholders of Barclays PLC for the year amounted to £4,382m, compared with £4,417m in 2007.

Dividends

As announced on 13th October 2008, in the light of the new capital ratios agreed with the Financial Services Authority (FSA) and in recognition of the need to maximise capital resources in the current economic climate, the Board concluded that it would not be appropriate to pay a final dividend for 2008. The Board intends to resume dividend payments in the second half of 2009, at which time it is intended to pay dividends quarterly. The interim dividend for the year ended 31st December 2008 of 11.5p per ordinary share was paid on 1st October 2008 and the total distribution for 2008 is 11.5p (2007: 34.0p per ordinary share). The staff shares were re-purchased by the Company during the year. The dividends for the year have absorbed a total of £915m (2007: £2,253m).

Share Capital

At the 2008 Annual General Meeting, shareholders approved the creation of Sterling, Dollar, Euro and Yen preference shares (preference shares) in order to provide the Group with more flexibility in managing its capital resources. As at 27th February 2009 (the latest practicable date for inclusion in this report) no preference shares have been issued.

In order to minimise the dilutive effect on existing shareholders of the issuance of 336,805,556 ordinary shares in 2007, at the start of 2008 the Company purchased in the market for cancellation 36,150,000 of its ordinary shares of 25p each, at a total cost of £171,923,243 (this was in addition to the 299,547,510 shares purchased for cancellation in 2007). During 2008 the Company purchased all of its staff shares in issue, following approval for such purchase being given at the 2008 Annual General Meeting, at a total cost of £1,023,054. As at 27th February 2009, the Company had an unexpired authority to repurchase shares up to a maximum of 984,960,000 ordinary shares.

The issued ordinary share capital was increased by 1,772m ordinary shares during 2008. In addition to those issued as a result of the exercise of options under the Sharesave and Executive Share Option Schemes during the year, the following share issues took place:

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On 4th July 2008, the Company issued 168.9 million new ordinary shares in a firm placing to Sumitomo Mitsui Banking Corporation.

On 22nd July 2008, the Company issued 1,407.4 million new ordinary shares following a placing to Qatar Holding LLC, Challenger Universal Limited (a company representing the beneficial interests of His Excellency Sheikh Hamad Bin Jassim Bin Jabr Al-Thani, the chairman of Qatar Holding LLC, and his family), China Development Bank, Temasek Holdings (Private) Limited and certain leading institutional shareholders and other investors, which shares were available for clawback in full by means of an open offer to existing shareholders. Valid applications under the open offer were received from qualifying shareholders in respect of approximately 267 million new ordinary shares in aggregate, representing 19.0% of the shares offered pursuant to the open offer. Accordingly, the remaining 1,140.3 million shares were allocated to the various investors with whom they had been conditionally placed.

On 18th September 2008, the Company issued 226 million new ordinary shares to certain institutional investors.

During the period 27th November 2008 to 31st December 2008, 33,000 ordinary shares were issued following conversion of Mandatorily Convertible Notes at the option of their holders.

At 31st December 2008 the issued ordinary share capital totalled 8,371,830,617 shares. Ordinary shares represent 100% of the total issued share capital as at 31st December 2008.

The Company's Memorandum and Articles of Association, a summary of which can be found in the Shareholder Information section on pages 315-323, contain the following details, which are incorporated into this report by reference:

The structure of the Company's capital, including the rights and obligations attaching to each class of shares.

Restrictions on the transfer of securities in the Company, including limitations on the holding of securities and requirements to obtain approvals for a transfer of securities.

Restrictions on voting rights.

The powers of the Directors, including in relation to issuing or buying back shares in accordance with the Companies Act 1985. It will be proposed at the 2009 AGM that the Directors be granted new authorities to allot and buy back shares under the Companies Act 1985.

Rules that the Company has about the appointment and removal of Directors or amendments to the Company's Articles of Association. Employee Benefit Trusts (EBTs) operate in connection with certain of the Group's Employee Share Plans (Plans). The Trustees of the EBTs may exercise all rights attached to the shares in accordance with their fiduciary duties other than as specifically restricted in the relevant Plan governing documents. The trustees of the EBTs have informed the Bank that their normal policy is to abstain from voting in respect of the Barclays shares held in trust. The trustees of the Sharepurchase EBT may vote in respect of Barclays shares held in the Sharepurchase EBT, but only at the discretion of the participants. The trustees will not otherwise vote in respect of shares held in the Sharepurchase EBT.

Mandatorily Convertible Notes

On 27th November 2008, Barclays Bank PLC issued £4,050m of 9.75% Mandatorily Convertible Notes (MCNs) maturing on 30th September 2009 to Qatar Holding LLC, Challenger Universal Limited and entities representing the beneficial interests of HH Sheikh Mansour Bin Zayed Al Nahyan, a member of the Royal Family of Abu Dhabi and existing institutional shareholders and other institutional investors. If not converted at the holders option beforehand, these instruments mandatorily convert to ordinary shares of Barclays PLC on 30th June 2009. The conversion price is £1.53276 and, after taking into account MCNs that were converted on or before 31st December 2008, will result in the issue of 2,642 million new ordinary shares.

If there is a change of control of Barclays PLC following a takeover bid, Barclays PLC must (so far as legally possible) use all reasonable endeavours to cause the corporation which then controls Barclays PLC to execute a deed poll providing that the holders of the MCNs shall have the right (during the period ending on 30th June 2009) to convert the MCNs into, and to receive on a mandatory conversion, as the case may be, the class and amount of shares and other securities and property receivable upon such a takeover by the holders of the number of ordinary shares as would have been issued on conversion of the MCNs had such MCNs been converted immediately prior to the completion of such takeover.

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The issue of new ordinary shares or certain other securities and rights of the Company, at any time during the period commencing on 27th November 2008 and ending on the date on which a holder exercises its optional conversion right or on the mandatory conversion date, at a price (the Future Placing Price) lower than the then current conversion price will (subject to exceptions for ordinary shares issued pursuant to employee share schemes, under the warrants or as a result of certain corporate events) result in a downward adjustment to the conversion price (subject to a minimum conversion price of the then par value per ordinary share (currently 25 pence)) so that it equals the Future Placing Price. The conversion price will also be subject to adjustment if the Company distributes an extraordinary dividend or if certain dilutive events occur, including bonus issues, rights issues or an adjustment to the nominal value or redenomination of the ordinary shares.

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Warrants

On 31st October 2008 Barclays PLC issued, in conjunction with a simultaneous issue of Reserve Capital Instruments issued by Barclays Bank PLC, warrants to subscribe for up to 1,516.9 million new ordinary shares at a price of £1.97775 to Qatar Holding LLC and HH Sheikh Mansour Bin Zayed Al Nahyan. The warrants may be exercised at any time up to close of business on 31st October 2013.

If there is a change of control of Barclays PLC following a takeover bid, Barclays PLC must (so far as legally possible) use all reasonable endeavours to cause the corporation which then controls Barclays PLC to execute a deed poll providing that the holders of the warrants shall have the right (during the period in which the warrants are exercisable) to exercise the warrants into the class and amount of shares and other securities and property receivable upon such a takeover by the holders of the number of ordinary shares as would have been issued on exercise of the warrants had such warrants been exercised immediately prior to the completion of such takeover.

The warrants contain provisions for the adjustment of the gross number of ordinary shares in the event of the occurrence of certain dilutive events including, amongst others, extraordinary dividends, bonus issues, alterations to the nominal value of ordinary shares and rights issues.

Substantial Shareholdings

Substantial shareholders do not have different voting rights from those of other shareholders. As at 27th February 2009, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the FSA of the following holdings of voting rights in its shares:

No. of ordinary shares

Qatar Holding LLC	522,755,622	6.4%
Axa S.A.	460,195,183	5.5%
Legal & General Group plc	330,460,896	4.1%

Board Membership

The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical and biographical details of the Board members are set out on pages 152 and 153.

Patience Wheatcroft and Sir Michael Rake were appointed as non-executive Directors with effect from 1st January 2008. Simon Fraser will join the Board as a non-executive Director with effect from 10th March 2009, subject to regulatory approvals. Dr Danie Cronjé left the Board on 24th April 2008 and Gary Hoffman left the Board on 31st August 2008.

Retirement and Re-election of Directors

As announced on 18th November 2008, at the 2009 AGM all Directors will stand for re-election, with the exception of Sir Nigel Rudd and Professor Dame Sandra Dawson, who will retire at the conclusion of the 2009 AGM and are not offering themselves for re-election.

Directors Interests

Directors' interests in the shares of the Group on 31st December 2008 are shown on pages 178 and 180.

Directors Emoluments

Information on emoluments of Directors of Barclays PLC, in accordance with the Companies Act 1985 and the Listing Rules of the United Kingdom Listing Authority, is given in the Remuneration Report on pages 171 to 186 and in Note 43 to the accounts.

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Directors Indemnities

The Board believes that it is in the best interests of the Group to attract and retain the services of the most able and experienced Directors by offering competitive terms of engagement, including the granting of indemnities on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31st December 2008 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Activities

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

Community Involvement and Charitable Donations

Barclays has an extensive community programme covering many countries around the world. The Group provides funding and support to over 7,000 charities and voluntary organisations, ranging from small, local charities, like Passage (UK), to international organisations like the Red Cross. We also have a very successful employee programme which in 2008 saw more than 57,000 employees and pensioners worldwide taking part in Barclays-supported volunteering, giving and fundraising activities. Further information on our community involvement is given on pages 66 and 67.

The total commitment for 2008 was £52.2m (2007: £52.4m). The Group committed £27.7m in support of the community in the UK (2007: £38.9m) and £24.5m was committed in international support (2007: £13.5m). The UK commitment includes £19.6m of charitable donations (2007: £30.4m).

Political Donations

The Group did not give any money for political purposes in the UK nor did it make any donations to EU political organisations or incur any EU political expenditure during the year.

Absa Group Limited, in which the Group acquired a majority stake in 2005, made donations totalling £186,589 in 2008 (2007: £170,142) in accordance with its policy of making political donations to the major South African political parties as part of their Democracy Support Programme. Donations are made to parties with more than three seats in the National Parliament as confirmed by the Independent Electoral Commission. Support for the deepening of democracy in South Africa remains paramount for the new government. The Group made no other political donations in 2008.

At the AGM in 2008, shareholders gave a limited authority for Barclays PLC and its subsidiaries to make political donations and incur political expenditure, within an agreed limit, as a precautionary measure in light of the wide definitions in the Companies Act 2006. This was similar to an authority given by shareholders in 2007. This authority, which has not been used, expires at the conclusion of the AGM held this year, or, if earlier, 30th June 2009.

The Companies Act 2006 largely restates the provisions of The Political Parties, Elections and Referendums Act 2000. The risk of inadvertently breaching the Companies Act 2006 remains, and the Directors consider it prudent to seek a similar authority from shareholders. A resolution to authorise Barclays PLC and its subsidiaries to make EU political donations and incur EU political expenditure up to a maximum aggregate sum of £125,000 is therefore being proposed at the Barclays PLC 2009 AGM.

Employee Involvement

Barclays is committed to ensuring that employees share in the success of the Group. Colleagues are encouraged to participate in share option and share purchase schemes and have a substantial sum invested in Barclays shares.

Employees are kept informed of matters of concern to them in a variety of ways, including the corporate news magazines, intranets, briefings and mobile phone SMS messaging. These communications help achieve a common awareness among employees of the financial and economic factors affecting the performance of Barclays.

Barclays is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. An annual Employee Opinion Survey is undertaken across Global Retail and Commercial Banking and Group Centre with results being reported to the Board and the Board HR and Remuneration Committee, all employees and to our European Works Council, Africa Forum, Unite (Amicus section), our recognised union in the UK and other recognised unions worldwide. Roadshows and employee forums also take place.

In addition, Barclays undertakes regular and formal consultations with our recognised trade unions and works councils internationally.

Diversity and Inclusion

The diversity agenda at Barclays seeks to include customers, colleagues and suppliers. Our objective is to recruit and retain the best people, regardless of (but not limited to) race, religion, age, gender, sexual orientation or disability. We strive to ensure our workforce reflects the communities in which we operate and the international nature of the organisation. We recognise that diversity is a key part of responsible business strategy in support of our increasingly global business. Barclays is committed to providing additional support to employees with disabilities and making it easier for them to inform us of their specific

Directors report

requirements, including the introduction of a dedicated intranet site and disability helpline. Through our Reasonable Adjustments Scheme, appropriate assistance can be given, including both physical workplace adjustments, and relevant training and access to trained mentors is also provided for disabled employees. A wide range of recruitment initiatives have been taken to increase the number of people with disabilities working in Barclays.

Health and Safety

Barclays is committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. Barclays regards legislative compliance as a minimum and, where appropriate, we seek to implement higher standards. Barclays also recognises its responsibilities towards all persons on its premises, such as contractors, visitors and members of the public, and ensures, so far as is reasonably practicable, that they are not exposed to significant risks to their health and safety.

Barclays regularly reviews its Statement of Health and Safety Commitment, issued with the authority of the Board and which applies to all business areas in which Barclays has operational control. In this statement Barclays commits to:

demonstrate personal leadership that is consistent with this commitment;

provide the appropriate resources to fulfil this commitment;

carry out risk assessments and take appropriate actions to mitigate the risks identified;

consult with our employees on matters affecting their health and safety;

ensure that appropriate information, instruction, training and supervision are provided;

appoint competent persons to provide specialist advice; and

review Barclays Health and Safety Group Process and the Statement of Commitment, at regular intervals.

Barclays monitors its health and safety performance using a variety of measurements on a monthly basis and the Board HR and Remuneration Committee receives annual reports on health and safety performance from the Human Resources Director. As part of its Partnership Agreement with Unite (Amicus section), Barclays currently funds full time Health and Safety Representatives.

Creditors Payment Policy

Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, in a timely manner. It is the Group's practice to agree terms with suppliers when entering into contracts. We negotiate with suppliers on an individual basis and meet our obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Paragraph 12(3) of Schedule 7 of the Companies Act 1985 requires disclosure of trade creditor payment days. Disclosure is required by the Company, rather than the Group. The Group's principal trading subsidiary in the UK is Barclays Bank PLC, the accounts for which are prepared in accordance with International Financial Reporting Standards. The components for the trade creditor calculation are not easily identified. However, by identifying as closely as possible the components that would be required if Schedule 4 of the Companies Act 1985 applied, the trade creditor payment days for Barclays Bank PLC for 2008 were 24 days (2007: 27 days). This is an arithmetical calculation and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

Essential business contracts

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

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Research and Development

In the ordinary course of business, Barclays develops new products and services in each of its business units.

Financial Instruments

The Group's financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out in pages 75 to 126 under the headings, Barclays approach to risk management, Credit Risk Management, Market risk management, Liquidity Risk Management and Derivatives and in Note 14 and Notes 46 to 49 to the accounts.

Events after the Balance Sheet Date

On 2nd February 2009, Barclays completed the acquisition of PT Bank Akita, which was announced initially on 17th September 2008, following the approval

of the Central Bank of Indonesia. On 17th February 2009, Barclays announced that Barclays Capital will discontinue operations at its EquiFirst subsidiary due to the market environment and strategic direction of the Group.

The Auditors

The Board Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Group, including monitoring the Group's use of the auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found on pages 212 and 213 and Note 9 to the accounts. Having reviewed the independence and effectiveness of the external auditors, the Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2009 AGM.

So far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company's auditors in connection with preparing their report.

The Annual General Meeting

The Barclays PLC AGM will be held at The Queen Elizabeth II Conference Centre on Thursday 23rd April 2009. The Notice of AGM is included in a separate document sent to shareholders with this report. A summary of the resolutions being proposed at the 2009 AGM is set out below:

Ordinary Resolutions

To receive the Directors' and Auditors' Reports and the audited accounts for the year ended 31st December 2008.

To approve the Directors' Remuneration Report for the year ended 31st December 2008.

To re-elect the following Directors:

Simon Fraser

Marcus Agius

David Booth

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Sir Richard Broadbent

Richard Leigh Clifford

Fulvio Conti

Robert E Diamond Jr

Sir Andrew Likierman

Christopher Lucas

Sir Michael Rake

Stephen Russell

Frederik Seegers

Sir John Sunderland

John Varley

Patience Wheatcroft

To reappoint PricewaterhouseCoopers LLP as auditors of the Company.

To authorise the Directors to set the remuneration of the auditors.

To authorise Barclays PLC and its subsidiaries to make political donations and incur political expenditure.

To authorise an increase in the Company's authorised share capital.

To renew the authority given to the Directors to allot securities.

Special Resolutions

To renew the authority given to the Directors to allot equity securities for cash other than on a pro-rata basis to shareholders and to sell treasury shares.

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To renew the Company's authority to purchase its own shares.

To permit General Meetings to continue to be called on 14 clear days' notice.
This is only a summary of the business to be transacted at the meeting and you should refer to the Notice of AGM for full details.

By order of the Board

Lawrence Dickinson
Company Secretary
5th March 2009

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Corporate governance report

Group Chairman's Introduction

I am pleased to report to you on the activities of the Board and its Committees during 2008. Our report sets out how we have complied with the UK Combined Code on Corporate Governance (the Code) and also gives further details of the matters that the Board and its principal Committees have considered over the year.

The year proved to be extremely challenging for the financial services industry as increasing vulnerabilities exposed in the global financial system created a period of exceptional instability.

During October 2008, it became clear that an industry-wide solution to the risks of systemic failure in the UK financial services sector was needed. The outcome of discussions between the UK's FSA and all UK banks was that we, along with many of our competitors, were required to raise additional equity and Tier 1 capital to take our capital ratios well beyond the levels we had previously agreed with our regulators (the Capital Raising).

The background to the Capital Raising announced by Barclays on 31st October 2008 is set out in my statement on pages 10 and 11. In the extraordinary circumstances leading up to that announcement, the Board had choices to make – choices not available to all banks. These choices entailed exceptionally difficult judgements made in market circumstances where from one day to the next nothing could be taken for granted.

These choices included retaining independent control of the business in undertaking the recapitalisation required by the authorities; recapitalising the business in one market operation well in advance of the June 2009 deadline set by the authorities; and effecting a recapitalisation under which all shareholders were not afforded their pre-emption rights.

The Board did not take any of these decisions lightly: its governance processes were rigorous. It met frequently, debated the issues at length, heard differing views and arguments, sought external advice and consulted representative shareholder bodies. The decisions it made were reached in the interests of shareholders as the Board, in the circumstances at the time, perceived them to be. These included forming judgements about the earnings per share and return on capital consequences of the Capital Raising for existing shareholders.

The Board believes that the decisions made have resulted in the Group being able to maintain its strategic momentum. The Directors deeply regret, however, that the Capital Raising denied Barclays then existing shareholders their full rights of pre-emption with respect to the ordinary shares issued. The Directors recognise that there is a high level of unhappiness on the part of some shareholders that the principle of pre-emption was breached, with consequent dilution of shareholdings and that, were it not to avoid the risk of destabilising the Company or the system, more of them may have voted against the enabling resolution at the General Meeting on 24th November 2008.

The Directors wish to place on record both their appreciation of the support received from shareholders in difficult circumstances in completing the Capital Raising and to re-affirm their fundamental commitment to the principle of pre-emption. The Board is clear that the extraordinary circumstances which they were required to deal with were so unusual as to be effectively unique.

Marcus Agius
Group Chairman
5th March 2009

Statements of Compliance

UK Combined Code on Corporate Governance

As Barclays is listed on the London Stock Exchange, we comply with the Code. For the year ended 31st December 2008, we have complied with the relevant provisions set out in section 1 of the Code and applied the principles of the Code as described in this report.

NYSE Corporate Governance Rules

Barclays has American Depositary Receipts listed on the New York Stock Exchange (NYSE) and is also subject to the NYSE's Corporate Governance rules (NYSE Rules). We are exempt from most of the NYSE Rules, which domestic US companies must follow, because we are a non-US company listed on the NYSE. However, we are required to provide an Annual Written Affirmation to the NYSE of our compliance with the applicable NYSE Rules and must also disclose any significant differences between our corporate governance practices and those followed by domestic US companies listed on the NYSE. As our main listing is on the London Stock Exchange, we follow the UK's Combined Code. Key differences between the Code and NYSE Rules are set out later in this report.

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Corporate governance framework

The Group operates within a comprehensive governance framework, which is set out in the diagram below. Details of the Group's risk management framework can be found on pages 75 to 79.

The Board is responsible for managing the Company on behalf of its shareholders and each Director must act in a way that he or she considers promotes the long-term success of the Company for the benefit of those shareholders as a whole. The Board also ensures that an appropriate balance between promoting long-term growth and delivering short-term objectives is achieved. The Board delegates responsibility for the day-to-day management of the Company to the Group Chief Executive, who is then responsible for ensuring that the business is operating effectively. The Group Chief Executive is supported by the Executive Committee, which he chairs, and the Executive Committee is supported by a number of management committees, including the Disclosure Committee. Details of the Disclosure Committee are set out on page 168. This report sets out how the Board and its Committees work within the governance framework and corporate governance guidelines.

The Board has eight scheduled Board meetings each year. Strategy is reviewed regularly at these meetings and there is normally a day and a half offsite meeting to consider and approve the Group's strategy for the next year. In addition to the scheduled Board meetings in 2008, 23 additional Board meetings were held during the year. The purpose of these meetings was to discuss the difficult market conditions that existed during the year and in particular the three equity capital raising transactions that were undertaken: the £4.5bn Placing and Open Offer in July (the Open Offer), the £701m Placing in September (the Placing) and the issue of £4.05bn in Mandatorily Convertible Notes, £3bn in Reserve Capital Instruments by Barclays Bank PLC and warrants for new ordinary shares in November (the Capital Raising). There were 12 Board meetings held in October and November specifically to discuss the Capital Raising. There were also eight meetings of the Board Finance Committee, to which the Board delegated authority to approve certain aspects of the capital raising transactions and the acquisition of Lehman Brothers North American businesses. The Board Finance Committee comprises the Group Chairman, the Group Chief Executive and at least two independent non-executive Directors, typically the Deputy Chairman and Senior Independent Director.

These additional Board meetings, which were called at short notice, had attendance of 78% for the Open Offer (May-July 2008), 85% for the acquisition of the Lehman Brothers North American businesses (September 2008) and 90% for the Capital Raising (October-November 2008). Attendance at the Board Finance Committee was 100%. Those Directors who were unable to attend any meeting were briefed separately on the discussions at the meetings and their views were sought.

We arrange scheduled Board and Committee meetings at least a year in advance. All Directors are expected to attend each meeting and the attendance at scheduled Board meetings is set out on page 163. All Directors are provided with background papers and relevant information in advance of each meeting. If a Director is unable to attend a meeting because of exceptional circumstances, he or she will still receive the supporting papers and will usually discuss with the Chairman of the meeting any matters they wish to raise to ensure their views are given due consideration. The Group Chairman usually meets with the non-executive Directors, without the executive Directors or any senior management present, ahead of each scheduled Board meeting to brief them on the business of the meeting. These meetings give the non-executive Directors an opportunity to advise the Chairman if they have any particular questions they wish to raise. The Group Chairman, Group Chief Executive and Company Secretary are always available for the Directors to discuss any issues relating to the Board meetings or other matters. In 2008, all Directors contributed the appropriate amount of time needed to fulfil their responsibilities. Reasons for non-attendance are generally prior business, personal commitments or illness. Given market conditions in 2008, several meetings had to be rearranged at short notice and it was not always possible for all Directors to attend on the revised date.

The Group Chairman and the Company Secretary work together to make sure that the information communicated to the Board is accurate, timely and clear. This applies in advance of regular, scheduled Board meetings and in exceptional circumstances between those meetings. Timely communication of information was particularly important this year, given the need for the Board to respond to rapidly changing circumstances. Directors also have secure access to electronic copies of meeting papers and other key documents via a dedicated Directors' intranet, which includes past and current Board and Committee papers, reports, minutes, press coverage, analyst reports and material from briefing sessions. The services of the Company Secretary and his team are available to all Directors. Directors may also take independent professional advice on request, at the Company's expense.

The Board

Role of the Board

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Directors are required, by UK company law, to act in a way they consider, in good faith, would promote the success of Barclays for the benefit of the shareholders as a whole. In doing so, the Directors must have regard (amongst other matters) to:

the likely consequences of any decision in the long term;

the interests of Barclays employees;

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the need to foster Barclays business relationships with suppliers, customers and others;

the impact of Barclays operations on the community and the environment;

the desirability of Barclays maintaining a reputation for high standards of business conduct; and

the need to act fairly as between shareholders of Barclays.

The role and responsibilities of the Barclays Board are set out in Corporate Governance in Barclays, which is available on our website at www.aboutbarclays.com.

The duties of Directors, described above, form part of their role and responsibilities. The Board is responsible to shareholders for creating and delivering sustainable shareholder value. In order to achieve this it must establish the objectives and policies of the Group that will deliver long-term value. The Board sets the overall strategic direction and ensures it is delivered within an appropriate framework of reward, incentive and control.

Another key responsibility of the Board is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulation. The Board considers the Group's business and reputation and ensures that the controls in place are appropriate to the materiality of financial and other risks and the relative costs and benefits of implementing specific controls.

The Board has its powers set out in a formal schedule of matters reserved for the Board's decision. A summary of the matters reserved for the Board is set out opposite. These are matters that are significant to the Group as a whole because of their strategic, financial or reputational implications or consequences. The Schedule of Matters Reserved to the Board was reviewed and updated during 2008 to ensure it remains appropriate.

Figure 1 illustrates how the Board spent its time at the scheduled Board meetings during 2008.

Activities in 2008

Typically, at each meeting, the Group Chief Executive and Group Finance Director report to the Board and one or two of the main businesses or functions also presents an update on the progress of implementing the strategy. The Board also receives reports from each of the principal Board Committees and may also receive reports from the Company Secretary on any relevant corporate governance matters.

Summary of Matters Reserved to the Board

Approval of the Group's strategy, Medium-Term and Short-Term Plans and Risk Appetite

Monitoring delivery of the strategy and performance against plan

Changes relating to capital structure or status as a PLC

Approval of annual Capital Plan

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Approval of interim and final financial statements, dividends and any significant change in accounting policies or practices

Authorisation of Directors conflicts or possible conflicts of interest

Appointment (or removal) of Company Secretary

Any share dividend alternative

Remuneration of auditors and recommendations for appointment or removal of auditors

Approval of all circulars, prospectuses and significant press releases

Principal regulatory filings with stock exchanges

Board appointments and removals

Role profiles of key positions on the Board

Terms of reference and membership of Board Committees

Major acquisitions, mergers or disposals

Major capital investments and projects

Approval of the framework for determining the policy and specific remuneration of executive Directors

Approval of Chairman and non-executive Director remuneration

Major changes in employee share schemes

Approval of Board and Board Committees performance evaluation process

Determination of independence of non-executive Directors

Approval of corporate governance framework

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Approval of division of responsibilities between the Group Chairman and Group Chief Executive

Rules and procedures for dealing in Barclays securities

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The Board allocated its time at scheduled Board meetings during 2008 as follows:

received reports from the Group Chief Executive on strategic progress, matters considered by the Executive Committee and competitor activity;

received reports from the Group Finance Director on the financial position of the Group, which included capital management and liquidity updates throughout 2008;

received reports from each of the Board Committees;

received reports from the Group Risk Director on risk management and from the Group General Counsel on legal risk;

received reports from businesses or functions on progress against strategy, including Barclays Wealth, Barclays Capital, Barclaycard, Brand & Marketing, UK Retail Banking, Investment Banking and Investment Management in Asia Pacific and GRCB Emerging Markets;

approved the full year and half-year results for the Group;

received a report on the effectiveness of the Board following the performance review;

received reports on peer group comparisons of results following the release of preliminary and half-year results;

received reports on governance issues and updates on the changes in company law;

approved the revised fees recommended for non-executive Directors following a benchmarking comparison against our peer group;

received external presentations on shareholder sentiment, including institutional perceptions, Group Strategy, Global Retail and Commercial Banking, Investment Banking and Investment Management, performance, capital management and communications;

approved the strategy and Risk Appetite for the Group;

received reports on franchise health and the Employee Opinion Survey; and

received reports on the economic environment.

Adverse market conditions during 2008 led to the Board holding an additional 23 meetings during the year. These additional meetings discussed the impact of market conditions on performance, liquidity, the three capital raisings that were undertaken during the year and the acquisition of

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Lehman Brothers North American businesses. Ongoing and regular communication with the Board was vital during this period, a principle that had been established during the potential ABN AMRO acquisition in 2007. If the additional meetings relating to the capital raisings are taken into account, the Board spent 33% of its time on capital management.

The capital raising that was announced on 31st October 2008 in response to the new higher capital targets which the FSA set for all UK Banks was the subject of considerable discussion. Seven Board meetings and three Board Finance Committee meetings were held during October to discuss the new requirements and Barclays response. The Board had to take some key decisions during this period, in particular:

whether or not to accept government money over the weekend of 11th/12th October 2008;

the decision to accelerate the timetable for raising required capital in the light of deteriorating market conditions;

the decision not to pursue a rights issue in the light of practical and market constraints; and

the decision to proceed with the Capital Raising as announced.

These decisions were only taken by the Board after rigorous discussion and having sought external advice. They were taken in the long-term interests of all shareholders.

Board structure and composition

The roles of the Group Chairman and Group Chief Executive are separate. In line with the recommendations of the Code, there is a strong independent element on the Board and at least half the Board are independent non-executive Directors. At the date of this report, the Board is comprised of the Group Chairman, four executive Directors and 11 non-executive Directors. The balance of the Board is illustrated by Figure 2.

The Group Chairman's main responsibility is to lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully. The Board has delegated the responsibility for the day-to-day running of the Group to the Group Chief Executive. The Group Chief Executive in turn leads the executive Directors in making and implementing operational decisions and is responsible for recommending strategy to the Board.

Although the Board of Directors has collective responsibility for the success of the Group, executive Directors are directly responsible for business operations, whereas non-executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The non-executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. The Board has the benefit of a broad range of skills, knowledge and experience that the non-executive Directors have built up as Directors of other companies or business leaders, in government or in academia. Given the events of 2008 and the continuing uncertainty in the global financial services industry, the Board and, in particular, the Board Corporate Governance and

Nominations Committee, is considering both the appropriate size and skills mix of the Board. As a financial services business, the Board aims to appoint non-executive Directors who have the necessary skills and experience required for a proper understanding of the Group's activities and associated risks. The Board also aims to have diverse geographical experience represented on the Board and this is illustrated in Figure 3.

The Charter of Expectations, which forms part of Corporate Governance in Barclays, includes detailed role profiles for each of the main positions on the Board, including that of the Group Chairman, Deputy Chairman, Senior Independent Director and both non-executive and executive Directors. Responsibilities general to all Directors include:

1. Providing entrepreneurial leadership of the Company, within a framework of prudent and effective controls, which enable risk to be assessed and managed.
2. Approving the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance.
3. Setting the Company's values and standards and ensuring that its obligations to its shareholders and others are understood and met. In addition, non-executive Directors have a responsibility to constructively challenge and develop proposals on strategy whilst scrutinising the performance of management in meeting the Group's strategic objectives. Following appropriate challenge and debate, the Board expects to reach clear decisions and to provide a framework of support for the executive Directors in their management of the Group's business.

The Charter of Expectations, including role profiles for key Board positions, is available from: www.aboutbarclays.com.

Sir Richard Broadbent continued in the role of Senior Independent Director during 2008. The role of the Senior Independent Director is to:

Be available to shareholders if they have concerns relating to matters which contact through the normal channels of Group Chairman, Group Chief Executive or Group Finance Director has failed to resolve, or for which such contact is inappropriate.

Maintain contact as required with major shareholders to understand their issues and concerns, including attending meetings where necessary with shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

Meet with the non-executive Directors without the Group Chairman present at least annually and lead the Board in the ongoing monitoring and annual evaluation of the Group Chairman, including communicating results of the evaluation to the Group Chairman.

During the year, Sir Richard Broadbent attended meetings with a number of our institutional shareholders and shareholder bodies to discuss their views on the Group. Sir Richard also received feedback on the Group Chairman's performance following the annual Board Effectiveness Review and led discussions with the other non-executive Directors and the Group Chief Executive on the Group Chairman's performance.

Sir Nigel Rudd continued in the role of Deputy Chairman in 2008, providing support to the Group Chairman as required in carrying out his responsibilities.

The Board Corporate Governance and Nominations Committee is responsible for reviewing the structure, composition and balance of the Board and its principal Committees and recommends to the Board the appointment of any new Directors. It is important that the Board is refreshed regularly and the Committee conducts these reviews to ensure that there is an appropriate mix of skills and experience on the Board. Details of the experience and skills of each of the current Directors are set out in their biographies on pages 152 to 153. The length of tenure of the current non-executive Directors is illustrated in Figure 4.

In line with the recommendations of the Code, all Directors usually seek re-election every three years and any Directors appointed during the year seek re-election at the next annual general meeting (AGM). However, for the 2009 AGM, as set out in the Group Chairman's letter to shareholders dated 18th November 2008, all Directors will be seeking re-election, with the exception of Sir Nigel Rudd and Professor Dame Sandra Dawson, who

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will be retiring at the conclusion of the AGM. Details are set out in the Notice of Meeting.

External appointments contribute to an executive Director's ongoing development and experience and executive Directors are permitted to serve on one other listed company board, in addition to their role at Barclays. Other appointments may be taken up with the approval of the Group Chairman. All external appointments are considered in line with the Group's policy on Directors' Conflicts of Interest and, if appropriate, each appointment is authorised by the Board. Further details of the Group's policy on Directors' Conflicts of Interest are set out on page 162.

Independence of non-executive Directors

The Code sets out circumstances that may be relevant to the Board in determining whether each non-executive Director is independent. Barclays Charter of Expectations sets out specific criteria, which the Board considers are essential behaviours, to assess the independence of each non-executive Director, as follows:

provides objective challenge to management;

is prepared to challenge other's assumptions, beliefs or viewpoints as necessary for the good of the organisation;.

questions intelligently, debates constructively, challenges rigorously and decides dispassionately;

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is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the organisation; and

has a good understanding of the organisation's business and affairs to enable them to properly evaluate the information and responses provided by management.

The Board considers non-executive Director independence on an annual basis, as part of each Director's performance review.

The Board Corporate Governance and Nominations Committee and subsequently the Board reviewed the independence of non-executive Directors in early 2009 and concluded that each of them continues to demonstrate these essential behaviours. In determining that each of the non-executive Directors remains independent, the Board considered in particular the following:

Sir Nigel Rudd has served as a non-executive Director since 1996.

The Code suggests that length of tenure is a factor that should be considered when determining whether a Director continues to be independent. As recommended by the Code, it is our policy that any Director who serves for more than nine years should seek annual re-election by shareholders and that all Directors subject to re-election should undergo a rigorous performance evaluation.

As a result of the annual performance review, the Board concluded that Sir Nigel Rudd continues to demonstrate the essential characteristics of independence expected by the Board. The Board continues to be regularly refreshed and the Board considers Sir Nigel's length of service, and the resulting experience and knowledge of Barclays he has gained, as being especially valuable. This proved particularly helpful during the difficult market conditions in 2008. Sir Nigel has stood for re-election annually at each AGM since 2005. Sir Nigel will, however, retire at the 2009 AGM and is not seeking re-election.

All Directors must report any changes in their circumstances to the Board and the Board reserves the right to terminate the appointment of a non-executive Director if there are any material changes in their circumstances that may conflict with their commitments as a Barclays Director or that may impact on their independence. Under UK company law, a Director must now seek authorisation before taking up any position with another company that conflicts, or may possibly conflict, with the Company's interests. Barclays Articles of Association contain provisions to allow the Directors to authorise situations of potential conflicts of interest so that a Director is not in breach of his/her duty under company law. All existing external appointments for each Director were considered and authorised by the Board in September 2008 and additional external appointments have been authorised at subsequent Board meetings following notification to the Company Secretary. Each authorisation is set out in a Conflicts Register. The Board Corporate Governance and Nominations Committee is responsible for conducting an annual review of the Conflicts Register and confirming to the Board that, where relevant, conflicts have been dealt with appropriately, and that the process for dealing with them is operating effectively.

Conflicts of Interest

The following Directors' Duties on Conflicts of Interest set out in the Companies Act 2006 (the Act) came into force on 1st October 2008:

a duty not to accept benefits from third parties;

a duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company (situational conflicts); and

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a duty to disclose any interest in a proposed or existing transaction or arrangement with the company (transactional conflicts). Barclays Articles of Association were amended at the 2008 AGM to allow the Directors to authorise situational conflicts as permitted by the Act.

It is the responsibility of each Director to comply with the Act and Directors are required to notify Barclays in writing of any new situational or transactional conflicts. They are also required to consider the interests of their connected persons in case they amount to an indirect interest. Details of the potential conflict are submitted to the next Board meeting and the Directors, excluding the Director to whom the potential conflict relates, must carefully consider each potential conflict of interest before it is authorised, if appropriate.

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Board and Committee Membership and Attendance

The table below sets out attendance of Directors at Board and Committee meetings in 2008.

		Scheduled	Additional	Board Audit Committee	Board HR & Remuneration Committee	Board Corporate Governance & Nominations Committee	Board Risk Committee
Number of meetings held		7	23	10	5	2	4
Group Chairman							
Marcus Agius	OA	7	23		5	2	
Executive Directors							
John Varley (Group Chief Executive)	ED	7	23				
Bob Diamond	ED	7	22				
Gary Hoffman (left the Board 31st August 2008)	ED	5	7				
Chris Lucas	ED	7	23				
Frits Seegers	ED	6	20				
Non-executive Directors							
David Booth	I	7	22				4
Sir Richard Broadbent (Senior Independent Director)	I	7	21		5	2	4
Leigh Clifford	I	7	13		4		
Fulvio Conti	I	7	17	9			
Dr Danie Cronjé (left the Board 24th April 2008)	I	2					1
Professor Dame Sandra Dawson	I	7	21	10			
Sir Andrew Likierman	I	7	18	8			4
Sir Michael Rake	I	6	21	7			
Sir Nigel Rudd (Deputy Chairman)	I	7	20			2	
Stephen Russell	I	6	13	10		2	3
Sir John Sunderland	I	7	20		4	1	
Patience Wheatcroft	I	7	22				

Key

OA Independent on appointment

ED Executive Director

I Independent non-executive Director

Board Committees

Certain responsibilities of the Board are delegated to Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. Membership of Board Committees is recommended to the Board by the Board Corporate Governance and Nominations Committee, which reviews Committee composition and balance regularly to ensure the Committees are refreshed. All members of principal Board Committees are non-executive Directors, although the Chairman is a member of the Board HR and Remuneration Committee. Each Board Committee's terms of reference set out the specific matters for which delegated authority has been given. These terms of reference, which are available on our website, are reviewed annually.

The Board has delegated authority to four principal Board Committees:

Board Audit Committee

Board Risk Committee

Board Corporate Governance and Nominations Committee

Board HR and Remuneration Committee

The number of meetings held and attendance at the Committee meetings is set out above in Board and Committee Membership and Attendance . The activities of the Board Committees are set out on the pages 163 to 168.

The terms of reference for each of the principal Board Committees are available from the Corporate Governance section at: www.aboutbarclays.com.

Board Audit Committee

Stephen Russell (Chairman)

Fulvio Conti

Professor Dame Sandra Dawson

Sir Andrew Likierman

Sir Michael Rake

Secretary: Lawrence Dickinson

The Board Audit Committee terms of reference are available from the Corporate Governance section at: www.aboutbarclays.com.

In addition to the members of the Committee, there are a number of regular attendees at each meeting. The Group Chief Executive, Group Finance Director, Barclays Internal Audit Director, Group Risk Director, Group General Counsel and the lead external audit partner normally attend all scheduled Board Audit Committees. The Board Audit Committee members usually meet privately before each meeting to raise any concerns with the Chairman of the meeting and they also meet with the external auditors and the Barclays Internal Audit Director, without management present, at the end of most Committee meetings. Sir Andrew Likierman continues to fulfil his role as the financial expert as defined by the US Sarbanes-Oxley Act of 2002 and, as a result of his accountancy background and his career with HM Treasury, has recent and relevant financial experience as recommended by the Code. Sir Michael Rake will succeed Stephen Russell as Chairman of the Committee in March 2009. Sir Michael has significant audit experience having worked at KPMG from 1972-2007 where he was Chairman of KPMG International from 2002-2007.

Corporate governance report

Activities in 2008

Figure 5 illustrates how the Committee allocated its time in 2008. During 2008, the Committee:

considered the information it would require during the coming year to enable it to discharge its responsibilities;

considered the significant changes in financial markets and economic conditions and the impact on the areas of focus for the Committee;

reviewed the Annual Report and Accounts and half-year Results and Interim Management Statements;

reviewed in detail the valuations of Barclays Capital's credit market exposures, reviewing mark-to-market valuations and accounting for derivatives and assessing the overall quality of earnings;

reviewed the Group's accounting policies and, in particular, the accounting for leveraged loans;

considered control issues of Group level significance for different areas of the business;

received reports on the control environment in each of the following businesses or functions: Barclays Wealth, Barclays Commercial Bank, Western Europe, Global Retail and Commercial Banking IT, Barclaycard, Global Payments, Emerging Markets, BGI, Absa and Barclays Capital;

reviewed the effectiveness and independence of the Group statutory auditor;

approved the re-appointment, remuneration and engagement letter of the Group statutory auditor;

considered the provision of non-audit services by the Group statutory auditor – more details can be found in the box on page 165;

received reports from the external and internal auditors;

monitored the performance of the Internal Audit function;

reviewed the Global Internal Audit Plan;

reviewed the internal control and risk management systems;

Board Audit Committee Chairman's Statement

We held ten meetings in 2008 and an overview of how we used our meetings is set out below.

Our areas of focus in 2008 were dominated by the continuing disruption to the credit markets and financial services sector as a whole. In early 2008, we held a separate session of the Committee on accounting for and valuation of derivatives and complex financial instruments and also reviewed the Group's valuation methodology for these instruments. The latter comprises trading desk evaluation supported by independent price testing and benchmarking, followed by a review by Finance and Risk and by the external auditor.

When considering the Group's preliminary and half-year results and interim management statements, we spent a significant amount of time reviewing the disclosures around and the fair value of Barclays Capital's credit markets exposures, including asset backed securities and leveraged credit positions. As part of the approval of each results statement, we reviewed the fair value of the credit market exposures and the form and content of the disclosures. The review of the credit market exposure valuations included a review of marks by key asset categories, movements in exposures (including sales/paydowns) and a review of underlying collateral by vintage and rating. The Committee received at both the half-year and year-end and before each Interim Management Statement a specific presentation from Barclays Capital's Chief Operating Officer and discussed the valuations with the Group Finance Director, Group Risk Director and, importantly, the Group's external auditors. Reassurance was sought from independent Group control functions such as Risk and Finance, and the external auditors, that the individual marks were appropriate. The Committee was reassured that there were no significant variations between the prices at which assets were sold and the underlying marks. The Committee was content that the markets and models to which the valuations are marked are sufficiently robust to enable reliable and relevant valuations to be determined.

We also reviewed the controls around Barclays Capital's complex financial instruments, as well as reviewing the overall control environment at Barclays Capital. The Committee has sought to learn lessons from events at our peers, receiving reports on the circumstances surrounding losses experienced at Société Générale and UBS. We discussed the overall impact of market conditions and the challenging financial markets on the remit of the Committee and this will help shape our agenda for 2009.

In the second half of the year, as the financial crisis started to evolve into a global economic downturn, the Committee directed increasing attention at the deepening economic downturn, reviewing the key controls by which consequent risk can be managed. As a result, impairment measurement, fraud controls, collections activities and day-to-day credit controls and security documentation are receiving increased scrutiny from the Committee. During the year we also received additional presentations and reports on the impact of the acquisition of the Lehman Brothers North

American businesses in September 2008, including an initial assessment of the risks and controls in that business and a report on the impact of the acquisition on financial reporting. In reviewing the Internal Audit Plan for 2009, we also challenged management to make sure that the Internal Audit function is appropriately resourced for the challenges ahead and is directing its attention on areas likely to come under pressure in the expected downturn.

Impairment numbers continue to be closely reviewed by the Committee. It reviews a paper prepared by the Risk function, which examines impairment on a business-by-business basis. It examines closely any amendments or overrides to models, compares trends and impairment levels with peers and seeks independent reassurance from the external auditor.

Our reviews of the control environment in each of our businesses in 2008 continued to focus on those areas where the Group's business is expanding or which are deemed to be higher risk, including Emerging Markets. We also reviewed the controls around our key regulatory programmes, in particular, Sarbanes-Oxley and Basel II, and received regular reports on Sanctions compliance and Know Your Customer and Anti-Money Laundering controls.

The internal and external auditors are evaluated annually. Feedback on both is sought from key stakeholders in the Group via questionnaires with the results being presented to and discussed by the Committee. The Committee is satisfied with the performance of both auditors. During 2009, an external assessment of the internal audit function will be undertaken. The Committee has recommended to the Board and to shareholders that PwC should be re-appointed as the Group's auditors at the AGM on 23rd April 2009. We are fully satisfied that PwC provides effective, independent challenge to management, which has been crucial in the current difficult environment, and has provided valued support to the Committee in the advice given and the clarity of their briefings and reports. The feedback received from other stakeholders through the annual evaluation exercise has been positive.

As Chairman of the Committee, I have liaised as appropriate with the Chairman of the Board HR and Remuneration Committee, particularly to draw attention to any specific aspects of the Group's results which I feel he ought to be aware of when determining appropriate levels of compensation.

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The Committee can confirm that it received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.

Stephen Russell
Chairman of the Board Audit Committee
5th March 2009

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considered the effectiveness of the Group's internal controls over financial reporting;

received regular reports on Raising Concerns, including whistleblowing;

considered the Fraud Risk Control Framework; and

reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfill its responsibilities. The Committee also received regular updates during 2008 on:

Basel II

MiFID

Sarbanes-Oxley

Sanctions compliance

In February 2009, the Committee reviewed its activities in 2008 against its terms of reference and concluded that it had discharged the responsibilities delegated to it under those terms of reference.

Approval of financial statements

Barclays has a strong governance process in place to support its framework of disclosure controls and procedures. That process, in which the Board Audit Committee plays a key role, is illustrated in Figure 6.

The Legal and Technical Review Committee is an accounting, legal and regulatory compliance committee, which is responsible for reviewing the Group's financial reports and disclosures to ensure that they have been subject to adequate verification and comply with legal and technical requirements. Meetings are attended by the Group's auditors and US lawyers. The membership of the Disclosure Committee and its role is set out on page 168. The membership of the Executive Committee and its role is set out on pages 167 and 168.

This governance process is in place to ensure both management and the Board are given sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public. It also provides assurance for the Group Chief Executive and Group Finance Director when providing certifications as required under the Sarbanes-Oxley Act 2002 and recommended by the Turnbull Guidance on Internal Control. Further details of the Group's system of internal control and an assessment of its effectiveness may be found on page 187.

Non-Audit Services Policy

The Committee takes seriously its responsibility to put in place safeguards to auditor objectivity and independence. It has therefore established a policy on the provision of services by the Group's statutory auditor. The Policy describes the circumstances in which the auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the Policy and considers and approves requests to use the auditor for non-audit work. Allowable services are pre-approved up to £100,000, or £10,000 in the case of certain taxation services. The Company Secretary and his team deal with day-to-day administration of the Policy, facilitating requests for approval by the Committee. The Committee receives a report at each meeting on the non-audit services provided by the auditor and the Policy is reviewed by the Committee annually. Details of the services that are prohibited and allowed are set out below.

Services that are prohibited include:

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bookkeeping

design and implementation of financial information systems

appraisal or valuation services

actuarial services

internal audit outsourcing

management and Human Resource functions

broker or dealer, investment adviser or investment banking services

legal, expert and tax services involving advocacy

Allowable services that the Committee will consider for approval include:

statutory and regulatory audit services and regulatory non-audit services

other attest and assurance services

accountancy advice and training

risk management and controls advice

transaction support

taxation services

business support and recoveries

translation services

Corporate governance

Corporate governance report

Board Risk Committee

Sir Richard Broadbent (Chairman)

David Booth

Dr Danie Cronjé (to 24th April 2008)

Sir Andrew Likierman

Stephen Russell

Secretary: Lawrence Dickinson

The Board Risk Committee terms of reference are available from the Corporate Governance section at: www.aboutbarclays.com.

In addition to the Members of the Committee, all meetings are usually attended by the Group Finance Director and Group Risk Director. Barclays Internal Audit Director, Group General Counsel and Barclays external auditor, as well as other senior executives, also attend meetings of the Board Risk Committee, where appropriate.

The Board recognises that risk is a key parameter for the business.

The Board Risk Committee provides monitoring and oversight of all Barclays risk activities. During 2008, the Committee received presentations and updates on key aspects of the external market conditions to ensure it was able to maintain an appropriate level of oversight and report effectively to the Board.

Activities in 2008

The Committee met four times in 2008 and Figure 7 shows how the Committee allocated its time at those meetings. During 2008, the Committee:

received regular reports on, and considered, Risk Appetite and the Group's risk profile, including key indicators for Risk Appetite, Group Impairment, Retail Credit Risk, Wholesale Credit Risk, Market Risk, Financial Crime, Operational Risk and Economic Capital;

reviewed at each meeting updates on asset backed securities and leveraged credit markets, including the Group's exposures to sub-prime and Alt-A markets, monoline insurers and leveraged loan underwriting positions;

reviewed updates on liquidity risk;

reviewed risk trends and risk management in GRCB Emerging Markets and South Africa;

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received regular Forward Risk Trends reports, which set out the internal and external indicators that are showing signs of strain;

reviewed the internal control framework;

examined the risk control framework, and approved Group policies including the trading book policy, large exposures policy, liquidity policy, retail and wholesale credit impairment policies and the Group's principal risks policy;

reviewed Group-wide stress testing scenarios and results;

reviewed in greater detail the process around setting annual Risk Appetite to establish the effectiveness of the process in responding to significant changes in economic and market conditions;

reviewed the programme of actions being taken Group-wide to mitigate risk in view of deteriorating economic conditions in our major markets, such as the UK, US, South Africa and Spain;

reviewed the Risk Appetite for the Group for 2009 and made recommendations to the Board; and.

received updates on Basel II.

Board Risk Committee Chairman's Statement

2008 was a challenging year for risk management and this was reflected in the work of the Committee, which is detailed below. Particular areas worthy of note were:

The Committee monitored the Group's sub-prime exposures throughout the year. The reduction in limits and scale of the sub-prime business in 2007 reduced the impact of the crisis, although substantial write-downs were still required during 2008, reflecting a further deterioration in the markets and underlying performance of the assets.

The Committee also monitored the Group's exposure to other areas affected by the crisis, including other asset-backed securities, commercial mortgages and monoline insurers.

The Committee reviewed and compared the write-downs being taken in the sub-prime and related areas with those being taken by the industry.

The Committee monitored carefully the Group's overall risk exposure in the light of the anticipated worsening in economic conditions and reviewed management plans to manage and mitigate the effects of the expected downturn in multiple markets.

The Committee also monitored the capital position throughout the year relative to regulatory requirements and the Group's overall risk appetite. Several steps were taken throughout the year to strengthen the capital base prior to the events of October 2008 when the regulator changed the capital requirements for banks, requiring a further and substantial capital raising.

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The Committee played an active role in informing Board debate about Risk Appetite and capital planning for 2009.

Sir Richard Broadbent
Chairman of the Board Risk Committee