BARCLAYS PLC
Form 20-F
March 26, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

Commission file numbers:	Barclays PLC	1-09246
	Barclays Bank PLC	1-10257

BARCLAYS PLC

BARCLAYS BANK PLC

(Exact names of registrants as specified in their charters)

ENGLAND

(Jurisdictions of Incorporation)

1 CHURCHILL PLACE, LONDON, E14 5HP, ENGLAND

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	**Name of each exchange on which registered**
Barclays PLC	25p ordinary shares	New York Stock Exchange*
	American Depositary Shares, each representing four 25p ordinary shares	New York Stock Exchange
Barclays Bank PLC	7.4% Subordinated Notes 2009	New York Stock Exchange
	Callable Floating Rate Notes 2035	New York Stock Exchange
	Non-Cumulative Callable Dollar Preference Shares, Series 2	New York Stock Exchange*
	American Depositary Shares, Series 2, each representing one Non-Cumulative Callable Dollar Preference Share, Series 2	New York Stock Exchange
	Non-Cumulative Callable Dollar Preference Shares, Series 3	New York Stock Exchange*
	American Depositary Shares, Series 2, each representing one Non-Cumulative Callable Dollar Preference Share, Series 3	New York Stock Exchange
	Non-Cumulative Callable Dollar Preference Shares, Series 4	New York Stock Exchange*
	American Depositary Shares, Series 2, each representing one Non-Cumulative Callable Dollar Preference Share, Series 4	New York Stock Exchange
	iPath℠ CBOE S&P 500 BuyWrite Index℠	American Stock Exchange
	iPath® Dow Jones AIG Grains Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Livestock Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Nickel Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Copper Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Energy Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Agriculture Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Natural Gas Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® Dow Jones AIG Industrial Metals Total Return Sub-Index℠ ETN	NYSE Arca
	iPath® GBP/USD Exchange Rate ETN	NYSE Arca
	iPath® Dow Jones AIG Commodity Index Total Return℠ ETN	NYSE Arca
	iPath® EUR/USD Exchange Rate	

ETN	NYSE Arca
iPath® S&P GSCI Total Return Index ETN	NYSE Arca
iPath® MSCI India Index℠ ETN	NYSE Arca
iPath® S&P GSCI Crude Oil Total Return Index ETN	NYSE Arca
iPath® JPY/USD Exchange Rate ETN	NYSE Arca

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuers classes of capital or common stock as of the close of the period covered by the annual report.

Barclays PLC	25p ordinary shares	6,534,698,021
	£1 staff shares	875,000
Barclays Bank PLC	£1 ordinary shares	2,337,161,000
	£1 preference shares	1,000
	£100 preference shares	75,000
	100 preference shares	240,000
	$0.25 preference shares	131,000,000
	$100 preference shares	100,000

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

If this report is an annual or transition report, indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ¨ No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Barclays PLC:

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Barclays Bank PLC:

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer þ

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 ¨

If this is an annual report, indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrants have fifed all documents and reports required to be filed by Section 12,13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ¨ No ¨

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Certain non-IFRS measures

In this document certain non-IFRS (International Financial Reporting Standards) measures, such as profit before business disposals, are reported. Barclays management believes that these non-IFRS measures provide valuable information to readers of its financal statements because they enable the reader to focus more directly on the underlying day-to-day performance of its businesses and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays management. However, any non-IFRS measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Market and other data

This document contains information, including statistical data, about certain of Barclays markets and its competitive position. Except as otherwise indicated, this information is taken or derived from Datastream and other external sources. Barclays cannot guarantee the accuracy of information taken from external sources, or that, in respect of internal estimates, a third party using different methods would obtain the same estimates as Barclays.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to certain of the Group s plans and its current goals and expectations relating to its future financial condition and performance. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as aim , anticipate , target , expect , estimate , intend , plan , goal , believe , or other words of similar meaning forward-looking statements include, among others, statements regarding the Group s future financial position, income growth, impairment charges, business strategy, projected levels of growth in the banking and financial markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, UK domestic and global economic and business conditions, the effects of continued volatility in credit markets, market related risks such as changes in interest rates and exchange rates, the policies and actions of governmental and regulatory authorities, changes in legislation, the further development of standards and interpretations under IFRS applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, progress in the integration of Absa into the Group s business and the achievement of synergy targets related to Absa, the outcome of pending and future litigation, the success of future acquisitions and other strategic transactions and the impact of competition a number of which factors are beyond the Group s control. As a result, the Group s actual future results may differ materially from the plans, goals, and expectations set forth in the Group s forward-looking statements.

Any forward-looking statements made by or on behalf of Barclays speak only as of the date they are made. Barclays does not undertake to update forward-looking statements to reflect any changes in Barclays expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Barclays has made or may make in documents it has filed or may file with the Securities and Exchange Commission, including the discussion of risk management in the document.

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SEC Form 20-F cross reference information

SEC Form 20-F Cross Reference Information

Form 20-F

* Where the response to an item of Form 20-F is presented over a number of pages, the page number indicates the page number on which the relevant response begins.

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Glossary of terms

Absa definitions

Absa Group Limited refers to the consolidated results of the South African group of which the parent company is listed on the Johannesburg Stock Exchange (JSE Limited) in which Barclays owns a controlling stake.

Absa refers to the results for Absa Group Limited as consolidated into the results of Barclays PLC; translated into Sterling with adjustments for amortisation of intangible assets, certain head office adjustments, transfer pricing and minority interests.

International Retail and Commercial Banking-Absa is the portion of Absa s results that is reported by Barclays within the International Retail and Commercial Banking business.

Absa Capital is the portion of Absa s results that is reported by Barclays within the Barclays Capital business.

Other definitions

Income refers to total income net of insurance claims, unless otherwise specified.

Profit before business disposals represents profit before tax and disposal of subsidiaries, associates and joint ventures.

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

Risk Tendency is a statistical estimate of the average loss for each loan portfolio for a 12-month period, taking into account the size of the portfolio and its risk characteristics under current economic conditions, and is used to track the change in risk as the portfolio of loans changes over time. Further information on Risk Tendency is included under Risk Management Credit Risk Management

Daily Value at Risk (DVaR) is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%.

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Financial review

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Financial review

Group Performance

Barclays delivered profit before tax of £7,076m. Earnings per share were 68.9p and we increased the full year dividend payout to 34p, a rise of 10%.

Income grew 7% to £23,000m. Growth was well spread by business, with strong contributions from International Retail and Commercial Banking, Barclays Global Investors and Barclays Wealth. Net income, after impairment charges, grew 4% and included net losses of £1,635m relating to credit market turbulence, net of £658m of gains arising from the fair valuation of notes issued by Barclays Capital and settlements on overdraft fees in relation to prior years of £116m in UK Retail Banking.

Impairment charges and other credit provisions rose 30% to £2,795m. Impairment charges relating to US sub-prime mortgages and other credit market exposures were £782m. Excluding these sub-prime related charges, impairment charges improved 7% to £2,013m. In UK Retail Banking and Barclaycard, impairment charges improved significantly, as a consequence of reductions in flows into delinquency and arrears balances in UK cards and unsecured loans. UK mortgage impairment charges remained negligible, with low levels of defaults, and the wholesale and corporate sector remained stable. The significant increase in impairment charges in International Retail and Commercial Banking was driven by very strong book growth.

Operating expenses increased 4% to £13,199m. We invested in growing the branch network and distribution channels in International Retail and Commercial Banking and in infrastructure development in Barclays Global Investors. Costs were lower in UK Banking and broadly flat in Barclays Capital. Gains from property disposals were £267m (2006: £432m). The Group cost:income ratio improved two percentage points to 57%.

Business Performance   Global Retail and Commercial Banking

In UK Banking we improved the cost:income ratio a further two percentage points to 48%, excluding settlements on overdraft fees in relation to prior years of £116m. On this basis we have delivered a cumulative eight percentage point improvement in the past three years, well ahead of our target of six percentage points.

UK Retail Banking profit before tax grew 9% to £1,282m. Income grew 2% excluding settlements on overdraft fees in relation to prior years of £116m, reflecting a very strong performance in Personal Customer Retail Savings and good performances in Current Accounts, Local Business and Home Finance, partially offset by lower income from loan protection insurance. Enhancements in product offering and continued improvements in processing capacity enabled a strong performance in mortgage origination, with a share of net new lending of 8%. Operating expenses were well controlled and improved 3%. Impairment charges improved 12% 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.

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Barclays Commercial Bank delivered profit before tax of £1,371m. Profit before business disposals improved 5%. Income improved 7% driven by very strong growth in fees and commissions and steady growth in net interest income. Non-interest income increased to 32% of total income reflecting continuing focus on cross sales and efficient balance sheet utilisation. Operating expenses rose 6%, reflecting increased investment in product development and support, sales force capability and operational efficiency. Impairment charges increased £38m as a result of asset growth and higher charges in Larger Business.

Barclaycard profit before tax increased to £540m, 18% ahead of the prior year. Steady income relative to 2006 reflected strong growth in Barclaycard International offset by a reduction in UK card extended credit balances as we re-positioned the UK business and reduced lower credit quality exposures including the sale of the Monument card portfolio. As a result, impairment charges improved 21%, reflecting more selective customer recruitment, client management and improved collections. Operating expenses increased 12%, driven by continued investment in Barclaycard International and the non-recurrence of a property gain included in the 2006 results. Barclaycard US continued to make good progress, and for the first time made a profit for the year.

International Retail and Commercial Banking profits declined 23% to £935m. Results in 2006 included a £247m profit on disposals and £41m post tax profit share from FirstCaribbean International Bank. 2007 results reflected a 12% decline in the average value of the Rand.

International Retail and Commercial Banking excluding Absa delivered a profit before tax of £246m. Income rose 28% as we significantly increased the pace of organic growth across the business, with especially strong growth in Emerging Markets and Spain. Operating expenses grew 32% as we expanded the distribution footprint, opening 324 new branches and 157 new sales centres and also invested in rolling out a common technology platform and processes across the business. Impairment increased to £79m including very strong balance sheet growth and lower releases.

International Retail and Commercial Banking Absa Sterling profit fell £9m to £689m after absorbing the 12% decline in the average value of the Rand. Retail loans and advances grew 22% and retail deposits grew 20%.

Business Performance Investment Banking and Investment Management

Barclays Capital delivered a 5% increase in profit before tax to £2,335m. Net income was ahead of last year, reflecting very strong performances in most asset classes including interest rates, currencies, equity products and commodities. Results also included net losses arising from credit market turbulence of £1,635m net of gains from the fair valuation of issued notes of £658m. All geographies outside the US enjoyed significant growth in income and profits. Strong cost control led to operating expenses declining slightly year on year.

Barclays Global Investors (BGI) profit before tax increased 3% to £734m. Income grew 16%, driven by very strong growth in management fees and in securities lending revenues. Profit and income growth were both affected by the 8% depreciation in the average value of the US Dollar. BGI costs increased 25% as we continued to build our infrastructure across multiple products and platforms to support future growth.

The cost:income ratio rose to 62%. Assets under management grew US$265bn to US$2.1 trillion, including net new assets of US$86bn.

Barclays Wealth profit before tax rose 25% to £307m. Income growth of 11% was driven by increased client funds and greater transaction volumes. Costs were well controlled as business volumes rose and the cost:income ratio improved three percentage points to 76%. We continued to invest in client facing staff and infrastructure. Redress costs declined. Total client assets increased 14% to £133bn.

Head office functions and other operations

Head Office functions and other operations loss before tax increased 65% to £428m reflecting higher inter-segment adjustments and lower gains from hedging activities.

Capital management

At 31st December 2007, our Basel I Tier 1 Capital ratio was 7.8% (2006: 7.7%). We started managing capital ratios under Basel II from 1st January 2008. Our Basel II Tier 1 Capital ratio was 7.6%. Our Equity Tier 1 ratio was 5.0% under Basel I (2006: 5.3%) and 5.1% under Basel II.

We have increased the proposed dividend payable to shareholders in respect of 2007 by 10%. We maintain our progressive approach to dividends, expecting dividend growth broadly to match earnings growth over time.

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Financial data

Consolidated income statement summary

For the year ended 31st December

	2007 £m	2006 £m	2005 £m	2004 £m [a]
Net interest income	**9,610**	9,143	8,075	6,833
Net fee and commission income	**7,708**	7,177	5,705	4,847
Principal transactions	**4,975**	4,576	3,179	2,514
Net premiums from insurance contracts	**1,011**	1,060	872	1,042
Other income	**188**	214	147	131
Total income	**23,492**	22,170	17,978	15,367
Net claims and benefits incurred on insurance contracts	**(492)**	(575)	(645)	(1,259)
Total income net of insurance claims	**23,000**	21,595	17,333	14,108
Impairment charges and other credit provisions	**(2,795)**	(2,154)	(1,571)	(1,093)
Net income	**20,205**	19,441	15,762	13,015
Operating expenses	**(13,199)**	(12,674)	(10,527)	(8,536)
Share of post-tax results of associates and joint ventures	**42**	46	45	56
Profit before business disposals	**7,048**	6,813	5,280	4,535
Profit on disposal of subsidiaries, associates and joint ventures	**28**	323		45
Profit before tax	**7,076**	7,136	5,280	4,580
Tax	**(1,981)**	(1,941)	(1,439)	(1,279)
Profit after tax	**5,095**	5,195	3,841	3,301
Profit attributable to minority interests	**678**	624	394	47
Profit attributable to equity holders of the parent	**4,417**	4,571	3,447	3,254
	5,095	5,195	3,841	3,301
Selected financial statistics				
Basic earnings per share	**68.9p**	71.9p	54.4p	51.0p
Diluted earnings per share	**66.7p**	69.8p	52.6p	49.8p
Dividends per ordinary share	**34.0p**	31.0p	26.6p	24.0p
Dividend payout ratio	**49.3%**	43.1%	48.9%	47.1%
Profit attributable to the equity holders of the parent as a percentage of:				
average shareholders equity	**20.3%**	24.7%	21.1%	21.7%
average total assets	**0.3%**	0.4%	0.4%	0.5%
Selected statistical measures				
Cost:income ratio[b]	**57%**	59%	61%	61%
Average United States Dollar exchange rate used in preparing the accounts	**2.00**	1.84	1.82	1.83
Average Euro exchange rate used in preparing the accounts	**1.46**	1.47	1.46	1.47
Average Rand exchange rate used in preparing the accounts	**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.
b Defined on page 2.

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Financial data

Consolidated balance sheet summary

As at 31st December

	2007	2006	2005	2004
	£m	£m	£m	£m [a]
Assets				
Cash and other short-term funds	**7,637**	9,753	5,807	3,525
Treasury bills and other eligible bills	**n/a**	n/a	n/a	6,658
Trading portfolio and financial assets designated at fair value	**341,171**	292,464	251,820	n/a
Derivative financial instruments	**248,088**	138,353	136,823	n/a
Debt securities and equity shares	**n/a**	n/a	n/a	141,710
Loans and advances to banks	**40,120**	30,926	31,105	80,632
Loans and advances to customers	**345,398**	282,300	268,896	262,409
Available for sale financial investments	**43,072**	51,703	53,497	n/a
Reverse repurchase agreements and cash collateral on securities borrowed	**183,075**	174,090	160,398	n/a
Other assets	**18,800**	17,198	16,011	43,247
Total assets	**1,227,361**	996,787	924,357	538,181
Liabilities				
Deposits and items in the course of collection due to banks	**92,338**	81,783	77,468	112,229
Customer accounts	**294,987**	256,754	238,684	217,492
Trading portfolio and financial liabilities designated at fair value	**139,891**	125,861	104,949	n/a
Liabilities to customers under investment contracts	**92,639**	84,637	85,201	n/a
Derivative financial instruments	**248,288**	140,697	137,971	n/a
Debt securities in issue	**120,228**	111,137	103,328	83,842
Repurchase agreements and cash collateral on securities lent	**169,429**	136,956	121,178	n/a
Insurance contract liabilities, including unit-linked liabilities	**3,903**	3,878	3,767	8,377
Subordinated liabilities	**18,150**	13,786	12,463	12,277
Other liabilities	**15,032**	13,908	14,918	87,200
Total liabilities	**1,194,885**	969,397	899,927	521,417
Shareholders equity				
Shareholders equity excluding minority interests	**23,291**	19,799	17,426	15,870
Minority interests	**9,185**	7,591	7,004	894
Total shareholders equity	**32,476**	27,390	24,430	16,764
Total liabilities and shareholders equity	**1,227,361**	996,787	924,357	538,181

Risk weighted assets and capital ratios [b]				
Risk weighted assets	**353,476**	297,833	269,148	
Tier 1 ratio	**7.8%**	7.7%	7.0%	
Risk asset ratio	**12.1%**	11.7%	11.3%	

Selected financial statistics				
Net asset value per ordinary share	**353p**	303p	269p	246p
Year-end United States Dollar exchange rate used in preparing the accounts	**2.00**	1.96	1.72	1.92
Year-end Euro exchange rate used in preparing the accounts	**1.36**	1.49	1.46	1.41
Year-end Rand exchange rate used in preparing the accounts	**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 are calculated on a Basel I basis. Capital ratios for 2004 based on IFRS are not available. 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.

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Financial review

Business description

The following section analyses the Group s performance by business. For management and reporting purposes, Barclays is organised into the following business groupings:

Global Retail and Commercial Banking

- **UK Banking**, comprising:

  UK Retail Banking

  Barclays Commercial Bank (formerly UK Business Banking)

- **Barclaycard**

- **International Retail and Commercial Banking,** comprising

  International Retail and Commercial Banking-excluding Absa

  International Retail and Commercial Banking-Absa.

Investment Banking and Investment Management

- **Barclays Capital**

- **Barclays Global Investors**

- **Barclays Wealth**

Head office functions and other operations

UK Banking

UK Banking delivers banking solutions to Barclays UK retail and business banking customers. It offers a range of integrated products and services and access to the expertise of other Group businesses. Customers are served through a variety of channels comprising the branch network, automated teller machines, telephone banking, online banking and relationship managers. UK Banking is managed through two business areas, UK Retail Banking and Barclays Commercial Bank.

UK Retail Banking

UK Retail Banking comprises Personal Customers, Home Finance, Local Business, Consumer Lending and Barclays Financial Planning. This cluster of businesses aims to build broader and deeper relationships with its Personal and Local Business customers through providing a wide range of products and financial services. Personal Customers and Home Finance provide access to current account and savings products, Woolwich branded mortgages and general insurance. Consumer Lending provides unsecured loan and protection products and Barclays Financial Planning provides investment advice and products. Local Business provides banking services, including money transmission, to small businesses.

Barclays Commercial Bank

Barclays Commercial Bank provides banking services to organisations with an annual turnover of more than £1m. Customers are served via a network of relationship and industry sector specialists, which provides solutions constructed from a comprehensive suite of banking products, support, expertise and services, including specialist asset financing and leasing facilities. Customers are also offered access to the products and expertise of other businesses in the Barclays Group, particularly Barclays Capital, Barclaycard and Barclays Wealth.

Barclaycard

Barclaycard is a multi-brand credit card and consumer lending business which also processes card payments for retailers and merchants and issues credit and charge cards to corporate customers and the UK Government. It is one of Europe s leading credit card businesses and has an increasing presence in the United States.

In the UK, Barclaycard comprises Barclaycard UK Cards, Barclaycard Partnerships (SkyCard, Thomas Cook, Argos and Solution Personal Finance), Barclays Partner Finance (formerly CFS) and FirstPlus.

Outside the UK, Barclaycard provides credit cards in the United States, Germany, Spain, Italy and Portugal. In the Nordic region, Barclaycard operates through Entercard, a joint venture with Swedbank.

Barclaycard works closely with other parts of the Group, including UK Retail Banking, Barclays Commercial Bank and International Retail and Commercial Banking, to leverage their distribution capabilities.

International Retail and Commercial Banking

International Retail and Commercial Banking provides banking services to Barclays personal and corporate customers outside the UK. The products and services offered to customers are tailored to meet the customer needs and the regulatory and commercial environments within each country. For reporting purposes, the operations are grouped into two components: International Retail and Commercial Banking-excluding Absa and International Retail and Commercial Banking-Absa. International Retail and Commercial Banking works closely with all other parts of the Group to leverage synergies from product and service propositions.

International Retail and Commercial Banking-excluding Absa

International Retail and Commercial Banking - excluding Absa provides a range of banking services to retail and corporate customers in Western Europe and Emerging Markets, including current accounts, savings, investments, mortgages and loans. Barclays Western Europe business includes Spain, Italy, France and Portugal. Emerging Markets includes operations in Africa, India and the Middle East.

International Retail and Commercial Banking-Absa

International Retail and Commercial Banking-Absa represents Barclays consolidation of Absa, excluding Absa Capital which is included as part of Barclays Capital. Absa Group Limited is one of South Africa s largest financial services organisations serving personal, commercial and corporate customers predominantly in South Africa. International Retail and Commercial Banking-Absa serves retail customers through a variety of distribution channels and offers a full range of banking services, including current and deposit accounts, mortgages, instalment finance, credit cards, bancassurance products and wealth management services. It also offers customised business solutions for commercial and large corporate customers.

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Barclays Capital

Barclays Capital is a leading global investment bank which provides large corporate, institutional and government clients with solutions to their financing and risk management needs.

Barclays Capital services a wide variety of client needs, from capital raising and managing foreign exchange, interest rate, equity and commodity risks, through to providing technical advice and expertise. Activities are organised into three principal areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets, prime services and equity products; Credit, which includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credit, as well as hybrid capital products, asset based finance, mortgage backed securities, credit derivatives, structured capital markets and large asset leasing; and Private Equity. 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.

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.

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. In addition, BGI is the global leader in assets and products in the exchange traded funds business, with over 320 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. 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.

Barclays Wealth

Barclays Wealth serves high net worth affluent and intermediary clients worldwide, providing private banking, asset management, stockbroking, offshore banking, wealth structuring and financial planning services and manages the closed life assurance activities of Barclays and Woolwich in the UK.

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

Head office functions and other operations

Head office functions and other operations comprise:

Head office and central support functions

Businesses in transition

Consolidation adjustments.

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.

Consolidation adjustments largely reflect the elimination of inter-segment transactions.

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Analysis of results by business

For the year ended 31st December 2007

	UK Banking	Barclaycard	International Retail and Commercial Banking	Barclays Capital	Barclays Global Investors	Barclays Wealth	Head office functions and other operations	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	4,596	1,394	1,890	1,179	(8)	431	128	9,610
Net fee and commission income	1,932	1,080	1,210	1,235	1,936	739	(424)	7,708
Principal transactions[a]	56	11	248	4,692	(4)	55	(83)	4,975
Net premiums from insurance contracts	252	40	372			195	152	1,011
Other income	58	(26)	87	13	2	19	35	188
Total income	6,894	2,499	3,807	7,119	1,926	1,439	(192)	23,492
Net claims and benefits incurred on insurance contracts	(43)	(13)	(284)			(152)		(492)
Total income, net of insurance claims	6,851	2,486	3,523	7,119	1,926	1,287	(192)	23,000
Impairment charges	(849)	(838)	(252)	(846)		(7)	(3)	(2,795)
Net income	6,002	1,648	3,271	6,273	1,926	1,280	(195)	20,205
Operating expenses	(3,370)	(1,101)	(2,356)	(3,973)	(1,192)	(973)	(234)	(13,199)
Share of post-tax results of associates and joint ventures	7	(7)	7	35				42
Profit before business disposals	2,639	540	922	2,335	734	307	(429)	7,048
Profit on disposal of subsidiaries, associates and joint ventures	14		13				1	28
Profit before tax	2,653	540	935	2,335	734	307	(428)	7,076
As at 31st December 2007								
Total assets	161,777	22,164	89,457	839,662	89,224	18,024	7,053	1,227,361
Total liabilities	166,988	1,559	48,809	811,516	87,101	43,988	34,924	1,194,885

Note

a Principal transactions comprise net trading income and net investment income.

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Global Retail and Commercial Banking

UK Banking

Who we are

UK Banking comprises UK Retail Banking and Barclays Commercial Bank (formerly UK Business Banking).

What we do

UK Banking delivers banking solutions to Barclays retail and business banking customers in the United Kingdom. We offer a range of integrated products and services and access to the expertise of other Group businesses. Customers are served through a variety of channels comprising the branch network, automated teller machines, telephone banking, online banking and relationship managers.

Highlights

Performance

2007/06

UK Banking profit before tax increased 4% (£107m) to £2,653m (2006: £2,546m) driven principally by solid income growth. Results included gains from the sale and leaseback of properties and property sales of £232m (2006: £313m).

The cost:income ratio improved one percentage point to 49%. Excluding the impact of settlements on overdraft fees in relation to prior years (£116m), the cost:income ratio improved two percentage points to 48%, making eight percentage points of improvement from 2004 to 2007 compared to the target of six percentage points.

2006/05

UK Banking profit before tax increased 14% (£310m) to £2,546m (2005: £2,236m) driven principally by good income growth. Profit before business disposals grew 10% (£234m) to £2,470m (2005: £2,236m).

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	2007	2006	2005
	£m	£m	£m
Income statement information			
Net interest income	4,596	4,467	4,213
Net fee and commission income	1,932	1,874	1,728
Net trading income	9	2	
Net investment income	47	28	26
Principal transactions	56	30	26
Net premiums from insurance contracts	252	342	298
Other income	58	63	32
Total income	6,894	6,776	6,297
Net claims and benefits incurred on insurance contracts	(43)	(35)	(61)
Total income, net of insurance claims	6,851	6,741	6,236
Impairment charges	(849)	(887)	(671)
Net income	6,002	5,854	5,565
Operating expenses excluding amortisation of intangible assets	(3,358)	(3,387)	(3,323)
Amortisation of intangible assets	(12)	(2)	(3)
Operating expenses	(3,370)	(3,389)	(3,326)
Share of post-tax results of associates and joint ventures	7	5	(3)
Profit on disposal of subsidiaries, associates and joint ventures	14	76	
Profit before tax	2,653	2,546	2,236
Balance sheet information			
Loans and advances to customers	£ 145.3bn	£ 131.0bn	£ 125.5bn
Customer accounts	£ 147.9bn	£ 139.7bn	£ 127.2bn
Total assets	£ 161.8bn	£ 147.6bn	£ 138.0bn
Selected statistical measures			
Cost:income ratio[a]	49%	50%	53%
Risk Tendency[a]	£ 775m	£ 790m	£ 665m
Risk weighted assets	£ 99.8bn	£ 93.0bn	£ 87.9bn

a Defined on page 2.

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Analysis of results by business

Global Retail and Commercial Banking

UK Retail Banking

Who we are

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

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 million UK customers.

Highlights

Performance indicators

Performance

2007/06

UK Retail Banking profit excluding tax increased 9% (£101m) to £1,282m (2006: £1,181m) due to reduced costs and a strong improvement in impairment.

Including the impact of settlements on overdraft fees from prior years (£116m), income decreased 1% (£49m) to £4,297m (2006: £4,346m). Income grew 2% (£67m) excluding 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.

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 3% (£69m) to £2,463m (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 from prior years (£116m), the cost:income ratio improved two percentage points to 56%.

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	2007	2006	2005
	£m	£m	£m
Income statement information			
Net interest income	2,858	2,765	2,677
Net fee and commission income	1,183	1,232	1,065
Net premiums from insurance contracts	252	342	372
Other income	47	42	24
Total income	4,340	4,381	4,138
Net claims and benefits on insurance contracts	(43)	(35)	(61)
Total income net of insurance claims	4,297	4,346	4,077
Impairment charges	(559)	(635)	(494)
Net income	3,738	3,711	3,583
Operating expenses excluding amortisation of intangible assets	(2,455)	(2,531)	(2,501)
Amortisation of intangible assets	(8)	(1)	
Operating expenses	(2,463)	(2,532)	(2,501)
Share of post-tax results of associates and joint ventures	7	2	(6)
Profit before tax	1,282	1,181	1,076
Balance sheet information			
Loans and advances to customers	£ 82.0bn	£ 74.7bn	£ 72.1bn
Customer accounts	£ 87.1bn	£ 82.3bn	£ 76.3bn
Total assets	£ 87.8bn	£ 81.7bn	£ 78.1bn
Selected statistical measures			
Cost:income ratio[a]	57%	58%	61%
Risk Tendency[a]	£ 470m	£ 500m	£ 415m
Risk weighted assets	£ 46.0bn	£ 43.0bn	£ 40.8bn

a Defined on page 2.

2006/05

UK Retail Banking profit before tax increased 10% (£105m) to £1,181m (2005: £1,076m), driven by good income growth and well controlled costs. There has been substantial additional investment to transform the business.

Income increased 7% (£269m) to £4,346m (2005: £4,077m). Income growth was broadly based. There was strong income growth in Personal Customers retail savings, Local Business and UK Premier and good growth in Personal Customers current account income. Sales volumes increased, with a particularly strong performance from direct channels.

Net interest income increased 3% (£88m) to £2,765m (2005: £2,677m). Growth was driven by a higher contribution from deposits, through a combination of good balance sheet growth and a stable liability margin. Total average customer deposit balances increased 8% to £76.5bn (2005: £71.0bn), supported by new products. Growth of personal savings was above that of the market.

Mortgage volumes improved significantly, driven by a focus on improving capacity, customer service, value and promotion. UK residential mortgage balances ended the year at £61.7bn (2005: £59.6bn). Gross advances were 60% higher at £18.4bn (2005: £11.5bn), with a market share of 5% (2005: 4%). Net lending was £2.4bn, with performance improving during the year, leading to a market share of 4% in the second half of the year. The mortgage margin was reduced by changed assumptions used in the calculation of effective interest rates, a higher proportion of new mortgages and base rate changes. The new business spread was in line with the industry. The loan to value ratio within the residential mortgage book on a current valuation basis was 34% (2005: 35%).

There was good balance growth in non-mortgage loans, where Local Business average balances increased 9% and UK Premier average balances increased 25%.

Net fee and commission income increased 16% (£167m) to £1,232m (2005: £1,065m). There was strong current account income growth in Personal Customers and Local Business. UK Premier delivered strong growth reflecting higher income from banking services, mortgage sales and investment advice.

Net premiums from insurance underwriting activities decreased 8% (£30m) to £342m (2005: £372m). There continued to be lower customer take-up of loan protection insurance. Net claims and benefits on insurance contracts improved to £35m (2005: £61m).

Impairment charges increased 29% (£141m) to £635m (2005: £494m). The increase principally reflected balance growth and some deterioration in delinquency rates in the Local Business loan book. Losses from the mortgage portfolio remained negligible, with arrears at low levels.

Operating expenses were steady at £2,532m (2005: £2,501m). Gains from the sale and leaseback of property amounted to £253m (2005: nil). Investment in the business to improve customer service and deliver sustainable performance improvements was directed at upgrading distribution capabilities, including restructuring and improving the branch network. Further investment was focused on upgrading the contact centres, transforming the performance of the mortgage business, revitalising the retail product range to meet customers needs, improving core operations and processes and rationalising the number of operating sites. The level of investment reflected in operating expenses in 2006 was approximately double the level of 2005.

The cost:income ratio improved three percentage points to 58% (2005: 61%).

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Global Retail and Commercial Banking

Barclays Commercial Bank

Who we are

Barclays Commercial Bank comprises 8,400 colleagues who serve 81,000 customers.

Earlier this year, we launched our new brand Barclays Commercial Bank to replace UK Business Banking. This new identity is much more than just a name change. Instead, it more accurately reflects our current capabilities and future aspirations, and it is scalable across markets. To complement the new identity, we also launched a clear customer proposition. It comprises three elements:

- relationship
- specialisation
- innovation

These encapsulate our capability to deliver distinctive service and solutions that meet our customers needs.

What we do

Barclays Commercial Bank provides banking services to organisations with an annual turnover of more than £1m. Customers are served via a network of relationship and industry sector specialists, which provides solutions constructed from a comprehensive suite of banking products, support, expertise and services, including specialist asset financing and leasing facilities.

We are a key component of the Barclays universal banking model, delivering income in partnership with all the constituent business units of the Barclays Group.

Highlights

Performance indicators

Performance

2007/06

Barclays Commercial Bank profit before tax increased £6m to £1,371m (2006: £1,365m) due to continued good income growth partially offset by lower gains from business disposals. Profit excluding profit on business disposals of £14m (2006: £76m) increased 5% to £1,357m (2006: £1,289m).

Income increased 7% (£159m) to £2,554m (2006: £2,395m). 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 £749m (2006: £642m) 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% (£36m) to £1,738m (2006: £1,702m). Average customer lendings increased 3% to £53.6bn (2006: £52.0bn). Average customer accounts grew 4% to £46.4bn (2006: £44.8bn).

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

Impairment charges increased 15% (£38m) to £290m (2006: £252m), 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 6% (£50m) to £907m (2006: £857m). 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.

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	2007	2006	2005
	£m	£m	£m
Income statement information			
Net interest income	**1,738**	1,702	1,536
Net fee and commission income	**749**	642	589
Net trading income	**9**	2	
Net investment income	**47**	28	17
Principal transactions	**56**	30	17
Other income	**11**	21	17
Total income	**2,554**	2,395	2,159
Impairment charges	**(290)**	(252)	(177)
Net income	**2,264**	2,143	1,982
Operating expenses excluding amortisation of intangible assets	**(903)**	(856)	(822)
Amortisation of intangible assets	**(4)**	(1)	(3)
Operating expenses	**(907)**	(857)	(825)
Share of post-tax results of associates and joint ventures		3	3
Profit on disposal of subsidiaries, associates and joint ventures	**14**	76	
Profit before tax	**1,371**	1,365	1,160
Balance sheet information			
Loans and advances to customers	**£ 63.3bn**	£ 56.3bn	£ 53.4bn
Customer accounts	**£ 60.8bn**	£ 57.4bn	£ 50.9bn
Total assets	**£ 73.9bn**	£ 65.9bn	£ 59.9bn
Selected statistical measures			
Cost:income ratio[a]	**36%**	36%	38%
Risk Tendency[a]	**£ 305m**	£ 290m	£ 250m
Risk weighted assets	**£ 53.8bn**	£ 50.0bn	£ 47.1bn

a Defined on page 2.

2006/05

Barclays Commercial Bank profit before tax increased 18% (£205m) to £1,365m (2005: £1,160m), driven by continued strong income growth. Barclays Commercial Bank maintained its market share of primary customer relationships. The 2006 result included a £23m (2005: £13m) contribution from the full year consolidation of Iveco Finance, in which a 51% stake was acquired on 1st June 2005. Profit before business disposals increased 11% to £1,289m (2005: £1,160m).

Income increased 11% (£236m) to £2,395m (2005: £2,159m), driven by strong balance sheet growth. The uplift in income was broadly based across income categories.

Net interest income increased 11% (£166m) to £1,702m (2005: £1,536m) driven by strong balance sheet growth. There was strong growth in all business areas and in particular Larger Business. The lending margin improved slightly. Average customer accounts increased 11% to £44.8bn (2005: £40.5bn) with good growth across product categories. The deposit margin was stable.

Net fee and commission income increased 9% (£53m) to £642m

(2005: £589m). There was a strong rise in income from foreign exchange and derivatives business transacted through Barclays Capital on behalf of Barclays Commercial Bank customers.

Income from principal transactions was £30m (2005: £17m), primarily reflecting the profit realised on a number of equity investments.

As expected, impairment rates trended upwards during the year towards a more normalised level. Impairment increased 42% (£75m) to £252m (2005: £177m), with the increase mainly reflecting higher charges from Medium Business and balance growth. Impairment charges in Larger Business were stable.

Operating expenses increased 4% (£32m) to £857m (2005: £825m). Cost growth reflected higher volumes, increased expenditure on front line staff and the costs of Iveco Finance for a full year. Operating expenses included a credit of £60m on the sale and leaseback of property. Increased investment was focused on the acceleration of the rationalisation of operating sites and technology infrastructure.

The cost:income ratio improved two percentage points to 36% (2005: 38%).

Profit on disposals of subsidiaries, associates and joint ventures of £76m (2005: £nil) arose from the sales of interests in vehicle leasing and European vendor finance businesses.

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Global Retail and Commercial Banking

Barclaycard

Who we are

We are a multi-brand international credit card and consumer lending 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 US.

What we do UK

Our activities include all Barclaycard branded credit cards, the FirstPlus secured lending business and the retail finance business Barclays Partner Finance. In addition to these activities, Barclaycard also operates partnership cards with leading brands including SkyCard and the Thomas Cook Credit Card. We continue to lead the UK market with the launch in 2007 of Barclaycard OnePulse, the UK s first contactless card, and Barclaycard Breathe, the first card to donate a percentage of its profits to carbon reduction projects around the world.

International

Barclaycard s international presence is extensive. In 2007, 3 out of every 4 cards issued by Barclaycard were in markets outside the UK and we have 8.8m international cards in issue. We currently operate across Europe and the United States where we are the fastest growing credit card business. In Scandinavia we operate through Entercard, a joint venture with Swedbank.

Barclaycard Business

Barclaycard Business processes card payments for 93,000 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 137,000 corporate customers.

Highlights

Performance indicators

Performance

2007/06

Barclaycard profit before tax increased 18% (£82m) to £540m (2006: £458m), 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 1% (£28m) to £2,486m (2006: £2,514m) 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 £1,394m (2006: £1,383m) 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 6.59% (2006: 7.13%) 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 2% (£26m) to £1,080m (2006: £1,106m) 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% (£229m) to £838m (2006: £1,067m) 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 12% (£120m) to £1,101m (2006: £981m). Excluding a property gain of £38m in 2006, operating expenses increased 8% (£82m) reflecting continued investment in expanding our businesses in Europe and the US. 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 £77m against a loss before tax of £36m in 2006. We concluded seven new credit card partnership deals across Western Europe. 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.

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	2007	2006	2005
	£m	£m	£m
Income statement information			
Net interest income	**1,394**	1,383	1,231
Net fee and commission income	**1,080**	1,106	1,065
Net investment income	**11**	15	
Net premiums from insurance contracts	**40**	18	6
Other income	**(26)**		
Total income	**2,499**	2,522	2,302
Net claims and benefits incurred on insurance contracts	**(13)**	(8)	(3)
Total income net of insurance claims	**2,486**	2,514	2,299
Impairment charges	**(838)**	(1,067)	(753)
Net income	**1,648**	1,447	1,546
Operating expenses excluding amortisation of intangible assets	**(1,073)**	(964)	(891)
Amortisation of intangible assets	**(28)**	(17)	(17)
Operating expenses	**(1,101)**	(981)	(908)
Share of post-tax results of associates and joint ventures	**(7)**	(8)	1
Profit before tax	**540**	458	639
Balance sheet information			
Loans and advances to customers	**£ 20.1bn**	£ 18.2bn	£ 16.5bn
Total assets	**£ 22.2bn**	£ 20.1bn	£ 18.2bn
Selected statistical measures			
Cost:income ratio[a]	**44%**	39%	39%
Risk Tendency[a]	**£ 945m**	£ 1,135m	£ 865m
Risk weighted assets	**£ 19.9bn**	£ 17.0bn	£ 13.6bn

a Defined on page 2.

2006/05

Barclaycard profit before tax decreased 28% (£181m) to £458m (2005: £639m) as good income growth was more than offset by higher impairment charges and increased costs from the continued development of international businesses.

Income increased 9% (£215m) to £2,514m (2005: £2,299m) reflecting very strong momentum in Barclaycard US and strong performances in Barclaycard Business, FirstPlus, SkyCard and continental European markets.

Net interest income increased 12% (£152m) to £1,383m (2005: £1,231m) due to strong growth in International average extended credit card balances up 39% to £2.5bn (2005: £1.8bn) and average secured consumer lending balances up 55% to £3.4bn (2005: £2.2bn), partly offset by UK average extended credit card balances down 7% to £8.0bn (2005: £8.6bn), reflecting the impact of tighter lending criteria.

Net fee and commission income increased 4% (£41m) to £1,106m (2005: £1,065m) as a result of increased contributions from Barclaycard International, SkyCard, FirstPlus and Barclaycard Business. Barclaycard reduced its late and overlimit fee charges in the UK on 1st August 2006 in response to the Office of Fair Trading s findings.

Investment income of £15m (2005: £nil) represents the gain arising from the sale of part of the stake in MasterCard Inc, following its flotation.

Impairment charges increased 42% (£314m) to £1,067m (2005: £753m). The increase was driven by a rise in delinquent balances and increased numbers of bankruptcies and Individual Voluntary Arrangements. As a result of management action in 2005 and 2006 to tighten lending criteria and improve collection processes, the flows of new delinquencies reduced, and levels of arrears balances declined in the second half of 2006 in UK cards.

Operating expenses increased 8% (£73m) to £981m (2005: £908m). This included a £38m gain from the sale and leaseback of property. Excluding this item, underlying operating expenses increased 12% (£111m) to £1,019m. This was largely as a result of continued investment in Barclaycard International, particularly Barclaycard US, and the development of UK partnerships.

Barclaycard International continued its growth strategy in the continental European business delivering solid results. The Entercard joint venture, which is based in Scandinavia, performed ahead of plan. Barclaycard International loss before tax reduced to £36m (2005: loss £44m), including the loss before tax for Barclaycard US of £57m (2005: loss £60m). Barclaycard US continued to perform ahead of expectations, delivering very strong growth in balances and customer numbers and creating a number of new partnerships including US Airways, Barnes & Noble, Travelocity and Jo-Ann Stores.

Barclaycard UK customer numbers declined 1.4 million to 9.8 million (2005: 11.2 million). This reflected the closure of 1.5 million accounts that had been inactive.

Financial review

Analysis of results by business

Global Retail and Commercial Banking

International Retail and Commercial Banking

Who we are

Our business comprises: International Retail and Commercial Banking excluding Absa and International Retail and Commercial Banking Absa.

What we do

International Retail and Commercial Banking provides banking services to Barclays personal and corporate customers outside the UK. The products and services offered to customers are tailored to meet customer needs and the regulatory and commercial environments within each country.

Highlights

Performance 2007/06

International Retail and Commercial Banking profit before tax decreased £281m to £935m (2006: £1,216m). International Retail and Commercial Banking excluding Absa profit before tax in 2006 included a £247m gain on the sale of associate FirstCaribbean International Bank and a £41m share of its post-tax results. Profit before tax in 2007 included gains from the sale and leaseback of property of £23m (2006: £55m). Very strong profit growth in Rand terms in International Retail and Commercial Banking Absa was offset by a 12% decline in the average value of the Rand.

A significant investment was made in infrastructure and distribution, including the opening of 644 new branches and sales centres across Western Europe, Emerging Markets and Absa.

2006/05

International Retail and Commercial Banking profit before tax increased £623m to £1,216m (2005: £593m). The increase reflected the inclusion of a full year s profit before tax from International Retail and Commercial Banking Absa of £698m (2005: £298m) and a profit of £247m on the disposal of Barclays interest in FirstCaribbean International Bank.

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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest income	1,890	1,653	1,045
Net fee and commission income	1,210	1,221	644
Net trading income	69	6	3
Net investment income	179	188	143
Principal transactions	248	194	146
Net premiums from insurance contracts	372	351	227
Other income	87	74	60
Total income	3,807	3,493	2,122
Net claims and benefits incurred under insurance contracts	(284)	(244)	(206)
Total income net of insurance claims	3,523	3,249	1,916
Impairment charges	(252)	(167)	(33)
Net income	3,271	3,082	1,883
Operating expenses excluding amortisation of intangible assets	(2,279)	(2,077)	(1,289)
Amortisation of intangible assets	(77)	(85)	(47)
Operating expenses	(2,356)	(2,162)	(1,336)
Share of post-tax results of associates and joint ventures	7	49	46
Profit on disposal of subsidiaries, associates and joint ventures	13	247	
Profit before tax	935	1,216	593
Balance sheet information			
Loans and advances to customers	£ 70.1bn	£ 53.2bn	£ 49.2bn
Customer accounts	£ 28.8bn	£ 22.1bn	£ 22.4bn
Total assets	£ 89.5bn	£ 68.6bn	£ 63.4bn
Selected statistical measures			
Cost:income ratio[a]	67%	67%	70%
Risk Tendency[a]	£ 475m	£ 220m	£ 175m
Risk weighted assets	£ 53.3bn	£ 40.8bn	£ 41.0bn

a Defined on page 2.

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Global Retail and Commercial Banking

International Retail and Commercial Banking excluding Absa

Who we are

Western Europe

This business area includes our retail and commercial banking operations in Spain, Portugal, France and Italy. Barclays has operated in Spain for over 30 years, and is the leading foreign bank and the sixth largest banking group overall. We have tripled the branch network in Portugal over the last two years, becoming the largest non-Iberian bank. Barclays is a leading affluent banking brand and a recognised product innovator in France. We are one of the leading mortgage providers in Italy and in 2007 established full retail and commercial banking operations.

Emerging Markets

The Emerging Markets team is responsible for Barclays businesses in the growing markets of Africa, India and the Middle East. Barclays has long-standing commercial banking operations in the UAE and in 2007 launched retail banking operations in India and the UAE. In Africa, Barclays operates in Botswana, Egypt, Ghana, Kenya, Mauritius, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe offering a range of retail and commercial banking products.

What we do

We provide a full range of banking services, including current accounts, savings, investments, mortgages and loans to our international personal and corporate customers.

International Retail and Commercial Banking works closely with all other parts of the group to leverage synergies from product and service propositions.

Performance indicators

Performance

2007/06

International Retail and Commercial Banking excluding Absa profit before tax decreased 53% (£272m) to £246m (2006: £518m). Profit before tax in 2006 included a £247m gain on the sale of associate FirstCaribbean International Bank and a £41m share of its post-tax results. Profit before tax in 2007 included gains from the sale and leaseback of property in 2007 of £23m (2006: £55m). The performance reflected very strong income growth driven by a rapid growth in distribution points to 1,348 (2006: 867) as well as the launch of new businesses in India and UAE and a full retail and commercial banking offering in Italy.

Income increased 28% (£293m) to £1,339m (2006: £1,046m) driven by excellent performances in Western Europe and Emerging Markets.

Net interest income increased 25% (£149m) to £753m (2006: £604m). Total average customer loans increased 22% (£6.1bn) to £33.3bn (2006: £27.2bn) with lending margins broadly stable. Mortgage balance growth in Western Europe was very strong, with average Euro balances up 16% (€4.2bn) to €30.1bn (2006: €25.9bn). Average customer deposits increased 20% (£2.1bn) to £12.5bn (2006: £10.4bn) driven by growth in Western

Europe and Emerging Markets.

Net fee and commission income grew 16% (£59m) to £425m (2006: £366m), reflecting strong performances in Western Europe driven by the expansion of the customer base.

Principal transactions increased £94m to £177m (2006: £83m) reflecting gains on equity investments and higher foreign exchange income across Emerging Markets.

Impairment charges rose 93% (£38m) to £79m (2006: £41m). The increase reflected very strong balance sheet growth in 2006 and 2007 and the impact of lower releases in 2007.

Operating expenses grew 32% (£249m) to £1,023m (2006: £774m) driven by the rapid expansion of the distribution network across all regions and investment in people and infrastructure to support future growth across the franchise. Operating expenses included property sales in Spain of £23m (2006: £55m).

Western Europe continued to perform strongly. Profit before tax increased 30% (£56m) to £245m (2006: £189m). Barclays Spain profit before tax increased 53% (£72m) to £207m (2006: £135m) driven by increased customer lending, higher service commissions and equity investment realisations. France also performed well driven by good growth in the balance sheet, higher fees and commissions and good cost control. Income grew very strongly in Italy as a result of the opening of new branches and the roll-out of a complete retail and commercial banking offering but this was more than offset by higher investment costs. Profit before tax decreased in Portugal, with very strong income growth offset by increased investment in the expansion of the business.

Emerging Markets profit before tax increased 25% (£28m) to £142m (2006: £114m) reflecting a very strong rise in income across a broad range of markets, with particularly strong growth in Egypt, UAE, Kenya, Ghana, Tanzania, Uganda and India. The income growth benefited from increased investment in the business across all geographies, including branch openings and the launch of retail banking services in India and the UAE.

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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest income	**753**	604	557
Net fee and commission income	**425**	366	316
Net trading income	**68**	17	31
Net investment income	**109**	66	88
Principal transactions	**177**	83	119
Net premiums from insurance contracts	**145**	111	129
Other income	**9**	20	23
Total income	**1,509**	1,184	1,144
Net claims and benefits incurred under insurance contracts	**(170)**	(138)	(162)
Total income net of insurance claims	**1,339**	1,046	982
Impairment charges	**(79)**	(41)	(14)
Net income	**1,260**	1,005	968
Operating expenses excluding amortisation of intangible assets	**(1,007)**	(765)	(706)
Amortisation of intangible assets	**(16)**	(9)	(6)
Operating expenses	**(1,023)**	(774)	(712)
Share of post-tax results of associates and joint ventures	**1**	40	39
Profit on disposal of subsidiaries, associates and joint ventures	**8**	247	
Profit before tax	**246**	518	295
Balance sheet information			
Loans and advances to customers	**£ 39.3bn**	£ 29.0bn	£ 25.3bn
Customer accounts	**£ 15.7bn**	£ 11.0bn	£ 10.2bn
Total assets	**£ 52.2bn**	£ 38.2bn	£ 34.0bn
Selected statistical measures			
Cost:income ratio[a]	**76%**	74%	73%
Risk Tendency[a]	**£220m**	£75m	£75m
Risk weighted assets	**£ 29.7bn**	£ 20.1bn	£ 20.2bn

a Defined on page 2.

2006/05

International Retail and Commercial Banking excluding Absa profit before tax increased 76% (£223m) to £518m (2005: £295m), including a gain on the disposal of the interest in FirstCaribbean International Bank of £247m. This reflected good growth in continental Europe offset by a decline in profits in Africa caused by higher impairment, and increased costs reflecting a step change in the rate of organic investment in the business.

Income increased 7% (£64m) to £1,046m (2005: £982m).

Net interest income increased 8% (£47m) to £604m (2005: £557m), reflecting strong balance sheet growth in continental Europe, Africa and the Middle East, and the development of the corporate business in Spain.

Total average customer loans increased 20% to £27.2bn (2005: £22.7bn). Mortgage balance growth in continental Europe was particularly strong, with average Euro balances up 22%. There was a modest decline in lending margins partly driven by a greater share of mortgage assets as a proportion of the total book in continental Europe. Average customer deposits increased 16% to £10.4bn (2005: £9.0bn), with deposit margins stable.

Net fee and commission income increased 16% (£50m) to £366m (2005: £316m). This reflected a strong performance from the Spanish funds business, where average assets under management increased 11%, together with very strong growth in France, including the first full year contribution of the ING Ferri business which was acquired on 1st July 2005. Net fee and commission income showed solid growth in Africa and the Middle East.

Principal transactions decreased £36m to £83m (2005: £119m). 2005 included £23m from the redemption of preference shares in FirstCaribbean International Bank.

Impairment charges increased £27m to £41m (2005: £14m). This reflected the absence of one-off recoveries of £12m which arose in 2005 in Africa and the Middle East, and strong balance sheet growth across the businesses.

Operating expenses increased 9% (£62m) to £774m (2005: £712m). This included gains from the sale and leaseback of property in Spain of £55m. Operating expenses also included incremental investment expenditure of £25m to expand the distribution network and enhance IT and operational capabilities.

Barclays Spain continued to perform strongly. Profit before tax increased 21% (£30m) to £171m (2005: £141m), excluding net one-off gains on asset sales of £32m (2005: £8m) and integration costs of £43m (2005: £57m). This was driven by the continued realisation of benefits from Banco Zaragozano, together with strong growth in assets under management and solid growth in mortgages.

Africa and the Middle East profit before tax decreased 9% (£12m) to £126m (2005: £138m) driven by higher impairment charges reflecting one-off recoveries of £12m that arose in 2005 and an increase in investment expenditure.

Profit before tax increased strongly in Portugal reflecting good flows of new customers and increased business volumes. France also performed well as a result of good organic growth and the acquisition of ING Ferri.

The profit on disposal of subsidiaries, associate and joint ventures of £247m (2005: £nil) comprised the gain on the sale of Barclays interest in FirstCaribbean International Bank. The share of post-tax results of FirstCaribbean International Bank included in 2006 was £41m (2005: £37m).

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Global Retail and Commercial Banking

International Retail and Commercial Banking Absa

Who we are

This business represents Barclays consolidation of Absa, excluding Absa Capital which is included in Barclays Capital.

International Retail and Commercial Banking Absa comprises four operating divisions: Retail Banking, Commercial Banking, African operations and a Bancassurance division. (Barclays Bank PLC owns 59% of Absa Group Limited).

What we do

International Retail and Commercial Banking Absa serves retail customers through a variety of distribution channels and offers a full range of banking services, including current and deposit accounts, mortgages, instalment finance, credit cards, bancassurance products and wealth management services. It also offers customised business solutions for commercial and large corporate customers.

Highlights

Performance indicators

Performance

2007/06

International Retail and Commercial Banking - Absa profit before tax decreased to £689m (2006: £698m)

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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest income	**1,137**	1,049	488
Net fee and commission income	**785**	855	328
Net trading income/(expense)	**1**	(11)	(28)
Net investment income	**70**	122	55
Principal transactions	**71**	111	27
Net premiums from insurance contracts	**227**	240	98
Other income	**78**	54	37
Total income	**2,298**	2,309	978
Net claims and benefits incurred under insurance contracts	**(114)**	(106)	(44)
Total income net of insurance claims	**2,184**	2,203	934
Impairment charges	**(173)**	(126)	(19)
Net income	**2,011**	2,077	915
Operating expenses excluding amortisation of intangible assets	**(1,272)**	(1,312)	(583)
Amortisation of intangible assets	**(61)**	(76)	(41)
Operating expenses	**(1,333)**	(1,388)	(624)
Share of post-tax results of associates and joint ventures	**6**	9	7
Profit on disposal of subsidiaries, associates and joint ventures	**5**		
Profit before tax	**689**	698	298
Balance sheet information			
Loans and advances to customers	**£ 30.8bn**	£ 24.2bn	£ 23.9bn
Customer accounts	**£ 13.1bn**	£ 11.1bn	£ 12.2bn
Total assets	**£ 37.3bn**	£ 30.4bn	£ 29.4bn
Selected statistical measures			
Cost:income ratio[a]	**61%**	63%	67%
Risk Tendency[a]	**£255m**	£145m	£100m
Risk weighted assets	**£ 23.6bn**	£ 20.7bn	£ 20.8bn

a Defined on page 2.

2006/05

International Retail and Commercial Banking Absa profit before tax increased 134% to £698m (2005: £298m) reflecting the full year to 31st December 2006 compared with the five months ended 31st December 2005. Barclays acquired a controlling stake in Absa Group Limited on 27th July 2005.

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Investment Banking and Investment Management

Barclays Capital

Who we are

Barclays Capital is a leading global investment bank providing large corporate, institutional and government clients with solutions to their financing and risk management requirements.

What we do

Barclays Capital service a wide variety of client needs, from capital raising and managing foreign exchange, interest rate, equity and commodity risks, through to providing technical advice and expertise.

Activities are organised into three principal areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets, prime services and equity products; Credit, which includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credit, as well as hybrid capital products, asset based finance, mortgage backed securities, credit derivatives, structured capital markets and large asset leasing; and Private Equity. 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.

Highlights

Performance indicators

Performance

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 net losses related to the credit market turbulence of £1,635m, of which £795m was included in income, net of £658m gains arising from the fair valuation of notes issued by Barclays Capital. Impairment charges included £840m against ABS CDO Super Senior exposures, other credit market exposures and drawn leveraged finance underwriting positions.

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 £57bn of issued notes held at fair value on the balance sheet, resulting in gains of £658m. 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).

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	2007	2006	2005
	£m	£m	£m
Income statement information			
Net interest income	**1,179**	1,158	1,065
Net fee and commission income	**1,235**	952	776
Net trading income	**3,739**	3,562	2,231
Net investment income	**953**	573	413
Principal transactions	**4,692**	4,135	2,644
Other income	**13**	22	20
Total income	**7,119**	6,267	4,505
Impairment charges and other credit provisions	**(846)**	(42)	(111)
Net income	**6,273**	6,225	4,394
Operating expenses excluding amortisation of intangible assets	**(3,919)**	(3,996)	(2,961)
Amortisation of intangible assets	**(54)**	(13)	(2)
Operating expenses	**(3,973)**	(4,009)	(2,963)
Share of post-tax results of associates and joint ventures	**35**		
Profit before tax	**2,335**	2,216	1,431
Balance sheet information			
Total assets	**£ 839.7bn**	£ 657.9bn	£ 601.2bn
Selected statistical measures			
Cost:income ratio[a]	**56%**	64%	66%
Risk Tendency[a]	**£ 140m**	£ 95m	£ 110m
Risk weighted assets	**£ 169.1bn**	£ 137.6bn	£ 116.7bn
Average DVaR	**£ 42.0m**	£ 37.1m	£ 32.0m
Corporate lending portfolio	**£ 52.3bn**	£ 40.6bn	£ 40.1bn

a Defined on page 2.

Operating expenses decreased 1% (£36m) to £3,973m (2006: £4,009m). 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.

2006/05

Profit before tax increased 55% (£785m) to £2,216m (2005: £1,431m). This was the result of a very strong income performance, driven by higher business volumes, continued growth in client activity and favourable market conditions. Net income increased 42% (£1,831m) to £6,225m (2005: £4,394m). Profit before tax for Absa Capital was £71m (2005: £39m).

Income increased 39% (£1,762m) to £6,267m (2005: £4,505m) as a result of very strong growth across the Rates, Credit and Private Equity businesses. Income increased in all geographic regions. Average DVaR increased 16% to £37.1m (2005: £32.0m) significantly below the rate of income growth.

Secondary income increased 43% (£1,584m) to £5,293m (2005: £3,709m).

Net trading income increased 60% (£1,331m) to £3,562m (2005: £2,231m) with very strong contributions across the Rates and Credit businesses, in particular, commodities, fixed income, equities, credit derivatives and emerging markets.

The performance was driven by higher volumes of client led activity and favourable market conditions. Net investment income increased 39% (£160m) to £573m (2005: £413m) driven by investment realisations, primarily in Private Equity, offset by reduced contributions from credit products. Net interest income increased 9% (£93m) to £1,158m (2005: £1,065m) driven by a full year contribution from Absa Capital.

Primary income grew 23% (£176m) to £952m (2005: £776m). This reflected higher volumes and continued market share gains in a number of key markets, with strong contributions from issuances in bonds, European leveraged loans and convertibles.

Impairment charges of £42m (2005: £111m), including impairment on available for sale assets of £86m (2005: £nil), were 62% lower than prior year reflecting recoveries and the continued benign wholesale credit environment.

Operating expenses increased 35% (£1,046m) to £4,009m (2005: £2,963m), reflecting higher performance related costs, increased levels of activity and continued investment across the business. Performance related pay, discretionary investment spend and short-term contractor resource costs represented 50% of operating expenses (2005: 46%). Amortisation of intangible assets principally relates to mortgage service rights obtained as part of the purchase of HomEq.

Total headcount increased 3,300 during 2006 to 13,200 (2005: 9,900) and included 1,300 from the acquisition of HomEq. Organic growth was broadly based across all regions and reflected further investments in the front office, systems development and control functions to support continued business expansion.

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Investment Banking and Investment Management

Barclays Global Investors

Who we are

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 over 320 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.

Highlights

Performance indicators

Performance

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$ 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.

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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest (expense)/income	(8)	10	15
Net fee and commission income	1,936	1,651	1,297
Net trading income	5	2	2
Net investment (expense)/income	(9)	2	4
Principal transactions	(4)	4	6
Other income	2		
Total income	1,926	1,665	1,318
Operating expenses excluding amortisation of intangible assets	(1,184)	(946)	(775)
Amortisation of intangible assets	(8)	(5)	(4)
Operating expenses	(1,192)	(951)	(779)
Profit before tax	734	714	540
Balance sheet information			
Total assets	£ 89.2bn	£ 80.5bn	£ 80.9bn
Selected statistical measures			
Cost:income ratio[a]	62%	57%	59%
Risk weighted assets	£ 2.0bn	£ 1.4bn	£ 1.5bn

a Defined on page 2.

2006/05

Barclays Global Investors delivered another year of outstanding results. Profit before tax increased 32% (£174m) to £714m (2005: £540m), reflecting very strong income growth and higher operating margins. The performance was broadly based across products, distribution channels and geographies.

Net fee and commission income increased 27% (£354m) to £1,651m (2005: £1,297m). This growth was attributable to increased management fees, particularly in the iShares and active businesses, and securities lending, offset by lower incentive fees. Incentive fees decreased 9% (£18m) to £186m (2005: £204m). Higher asset values, driven by higher market levels and good net new inflows, contributed to the growth in income.

Operating expenses increased 22% (£172m) to £951m (2005: £779m) as a result of significant investment in key growth initiatives, ongoing investment in product development and infrastructure and higher performance-based expenses. The cost:income ratio improved two percentage points to 57% (2005: 59%).

Total headcount rose 400 to 2,700 (2005: 2,300). Headcount increased in all regions, across product groups and the support functions, reflecting continued investment to support strategic initiatives.

Total assets under management increased 5% (£46bn) to £927bn (2005: £881bn) primarily due to net new inflows of £37bn. The positive market move impact of £98bn was largely offset by £89bn of adverse exchange rate movements. In US$ terms assets under management increased by US$301bn to US$1,814bn (2005: US$1,513bn), comprising US$68bn of net new assets, US$177bn of favourable market movements and US$56bn of positive exchange rate movements.

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Investment Banking and Investment Management

Barclays Wealth

Who we are

Barclays Wealth focuses on high net worth, affluent and intermediary clients worldwide. We have over 6,900 staff in 20 countries and have total client assets of £133bn. Barclays Wealth includes the closed life assurance activities of Barclays and Woolwich, and Walbrook, an independent fiduciary services company acquired in 2007.

What we do

Barclays Wealth provides private banking, asset and investment management, stockbroking, offshore banking, wealth structuring and financial planning services.

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.

Highlights

Performance indicators

Performance

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.

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.

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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest income	**431**	392	346
Net fee and commission income	**739**	674	593
Net trading income	**3**	2	
Net investment income	**52**	154	264
Principal transactions	**55**	156	264
Net premiums from insurance contracts	**195**	210	195
Other income	**19**	16	11
Total income	**1,439**	1,448	1,409
Net claims and benefits incurred on insurance contracts	**(152)**	(288)	(375)
Total income net of insurance claims	**1,287**	1,160	1,034
Impairment charges	**(7)**	(2)	(2)
Net income	**1,280**	1,158	1,032
Operating expenses excluding amortisation of intangible assets	**(967)**	(909)	(866)
Amortisation of intangible assets	**(6)**	(4)	(2)
Operating expenses			
	(973)	(913)	(868)
Profit before tax	**307**	245	164
Balance sheet information			
Loans and advances to customers	**£ 9.0bn**	£ 6.2bn	£ 5.0bn
Customer accounts	**£ 34.4bn**	£ 28.3bn	£ 25.8bn
Total assets	**£ 18.0bn**	£ 15.0bn	£ 13.4bn
Selected statistical measures			
Cost:income ratio[a]	**76%**	79%	84%
Risk Tendency[a]	**£ 10m**	£ 10m	£ 5m
Risk weighted assets	**£ 7.7bn**	£ 6.1bn	£ 4.3bn

a Defined on page 2.

2006/05

Barclays Wealth profit before tax showed very strong growth of 49% (£81m) to £245m (2005: £164m). Performance was driven by broadly based income growth and favourable market conditions. This was partially offset by additional volume related costs and a significant increase in investment in people and infrastructure to support future growth.

Income increased 12% (£126m) to £1,160m (2005: £1,034m).

Net interest income increased 13% (£46m) to £392m (2005: £346m) reflecting growth in both customer deposits and customer lending. Average deposits grew 6% (£1.6bn) to £27.7bn (2005: £26.1bn). Average lending grew 17% to £5.5bn (2005: £4.7bn), driven by increased lending to offshore and private banking clients. Asset and liability margins were higher relative to 2005.

Net fee and commission income increased 14% (£81m) to £674m (2005: £593m). This reflected growth in client assets and higher transactional income, including increased sales of investment products to high net worth and affluent clients, and higher stockbroking volumes.

Operating expenses increased 5% (£45m) to £913m (2005: £868m) with greater volume related and investment costs more than offsetting efficiency gains. Investment costs included increased hiring of client-facing staff and improvements to infrastructure with the upgrade of technology and operations platforms. The cost:income ratio improved five percentage points to 79% (2005: 84%).

Total client assets, comprising customer deposits and client investments, increased 19% (£18.6bn) to £116.1bn (2005: £97.5bn) reflecting good net new asset inflows and favourable market conditions. Multi-Manager assets increased 68% (£4.1bn) to £10.1bn (2005: £6.0bn); this growth included transfers of existing client assets.

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Analysis of results by business

Head office functions and other operations

Who we are

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

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. 2007 included a loss of £33m relating to fair valuation of call options embedded within retail US$ preference shares arising from widening of own credit spreads.

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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	2007 £m	2006 £m	2005 £m
Income statement information			
Net interest income	**128**	80	160
Net fee and commission income	**(424)**	(301)	(324)
Net trading (loss)/income	**(66)**	40	85
Net investment (expense)/income	**(17)**	2	8
Principal transactions	**(83)**	42	93
Net premiums from insurance contracts	**152**	139	72
Other income	**35**	39	24
Total income	**(192)**	(1)	25
Impairment (charges)/releases	**(3)**	11	(1)
Net income	**(195)**	10	24
Operating expenses excluding amortisation of intangible assets	**(233)**	(259)	(343)
Amortisation of intangible assets	**(1)**	(10)	(4)
Operating expenses	**(234)**	(269)	(347)
Profit on disposal of associates and joint ventures	**1**		
Loss before tax	**(428)**	(259)	(323)
Balance sheet information			
Total assets	**£ 7.1bn**	£ 7.1bn	£ 9.3bn
Selected statistical measures			
Risk Tendency[a]	**£ 10m**	£ 10m	£ 25m
Risk weighted assets	**£ 1.6bn**	£ 1.9bn	£ 4.0bn

a Defined on page 2.

2006/05

Head office functions and other operations loss before tax decreased £64m to £259m (2005: loss £323m).

Net interest income decreased £80m to £80m (2005: £160m) reflecting a reduction in net interest income in Treasury following the acquisition of Absa Group Limited. Treasury s net interest income also included the hedge ineffectiveness for the period, which together with other related Treasury adjustments amounted to a gain of £11m (2005: £18m) and the cost of hedging the foreign exchange risk on the Group s equity investment in Absa, which amounted to £71m (2005: £37m).

The impact of such inter-segment adjustments reduced £72m to £147m (2005: £219m). These adjustments related to internal fees for structured capital market activities of £87m (2005: £67m) and fees paid to Barclays Capital for capital raising and risk management advice of £23m (2005: £39m), both of which reduce net fees and commission income.

In addition the impact of the timing of the recognition of insurance commissions included in Barclaycard and UK Retail Banking reduced to £44m (2005: £113m). This reduction was reflected in a decrease in net fee and commission income of £184m (2005: £185m) and an increase in net premium income of £140m (2005: £72m).

Principal transactions decreased £51m to £42m (2005: £93m). 2005 included hedging related gains in Treasury of £80m. 2006 included £55m (2005: £nil) in respect of the economic hedge of the translation exposure arising from Absa foreign currency earnings.

The impairment charge improved £12m to a release of £11m (2005: £1m charge) as a number of workout situations were resolved.

Operating expenses decreased £78m to £269m (2005: £347m) primarily due to the expenses of the 2005 Head office relocation to Canary Wharf not recurring in 2006 (2005: £105m) and the gains of £26m (2005: £nil) from the sale and leaseback of property offset by increased costs, principally driven by major project expenditure including work related to implementing Basel II.

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Financial review

Results by nature of income and expense

Results by nature of income and expense

Net interest income

	2007 £m	2006 £m	2005 £m
Cash and balances with central banks	**145**	91	9
Available for sale investments	**2,580**	2,811	2,272
Loans and advances to banks	**1,416**	903	690
Loans and advances to customers	**19,559**	16,290	12,944
Other	**1,608**	1,710	1,317
Interest income	**25,308**	21,805	17,232
Deposits from banks	**(2,720)**	(2,819)	(2,056)
Customer accounts	**(4,110)**	(3,076)	(2,715)
Debt securities in issue	**(6,651)**	(5,282)	(3,268)
Subordinated liabilities	**(878)**	(777)	(605)
Other	**(1,339)**	(708)	(513)
Interest expense	**(15,698)**	(12,662)	(9,157)
Net interest income	**9,610**	9,143	8,075

2007/06

Group net interest income increased 5% (£467m) to £9,610m (2006: £9,143m) reflecting balance sheet growth across a number of businesses.

Group net interest income reflects 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 decreased to £351m expense (2006: £26m income), largely due to the smoothing effect of the structural hedge on changes in interest rates.

Other interest expense principally includes interest on repurchase agreements and hedging activity.

2006/05

Group net interest income increased 13% (£1,068m) to £9,143m (2005: £8,075m). The inclusion of Absa contributed net interest income of £1,138m (2005 [a]: £516m). Group net interest income excluding Absa grew 6%.

The contribution of the structural hedge decreased to £26m (2005: £145m), largely due to the impact of relatively higher short-term interest rates and lower medium-term rates.

Notes

a For 2005, this reflects the period from 27th July until 31st December 2005.

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Financial review

Results by nature of income and expense

Net fee and commission income

	2007 £m	2006 £m	2005 £m
Brokerage fees	109	70	64
Investment management fees	1,787	1,535	1,250
Securities lending	241	185	151
Banking and credit related fees and commissions	6,363	6,031	4,805
Foreign exchange commission	178	184	160
Fee and commission income	8,678	8,005	6,430
Fee and commission expense	(970)	(828)	(725)
Net fee and commission income	7,708	7,177	5,705

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 HomEq.

2006/05

Net fee and commission income increased 26% (£1,472m) to £7,177m (2005: £5,705m). The inclusion of Absa contributed net fee and commission income of £850m (2005 [a]: £334m). Group net fee and commission income excluding Absa grew 18%, reflecting growth across all businesses.

Fee and commission income rose 24% (£1,575m) to £8,005m (2005: £6,430m). The inclusion of Absa contributed fee and commission income of £896m (2005 [a]: £386m). Excluding Absa, fee and commission income grew 18%, driven by a broadly based performance across the Group, particularly within Barclays Global Investors.

Fee and commission expense increased 14% (£103m) to £828m (2005: £725m), reflecting the growth in Barclaycard US. Absa contributed fee and commission expense of £46m (2005 [a]: £52m).

Principal transactions

	2007 £m	2006 £m	2005 £m
Rates related business	4,162	2,848	1,732

Credit related business	**(403)**	766	589
Net trading income	**3,759**	3,614	2,321
Net gain from disposal of available for sale assets	**560**	307	120
Dividend income	**26**	15	22
Net gain from financial instruments designated at fair value	**293**	447	389
Other investment income	**337**	193	327
Net investment income	**1,216**	962	858
Principal transactions	**4,975**	4,576	3,179

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 arises in Barclays Capital. Growth in the Rates related business reflects very strong performances in fixed income, commodities, foreign exchange, equity and prime services. The Credit related business includes net losses from credit market turbulence and the benefits of widening credit spreads on the fair value of issued notes.

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).

2006/05

Net trading income increased 56% (£1,293m) to £3,614m (2005: £2,321m) due to excellent performances in Barclays Capital Rates and Credit businesses, in particular in commodities, fixed income, equities, credit derivatives and emerging markets. This was driven by higher volumes of client led activity and favourable market conditions. The inclusion of Absa contributed net trading income of £60m (2005[a]: £9m). Group net trading income excluding Absa grew 54%.

Net investment income increased 12% (£104m) to £962m (2005: £858m). The inclusion of Absa contributed net investment income of £144m (2005[a]: £62m). Group net investment income excluding Absa increased 3%.

The cumulative gain from disposal of available for sale assets increased 156% (£187m) to £307m (2005: £120m) driven by investment realisations, primarily in Private Equity.

Fair value movements on certain assets and liabilities have been reported within net trading income or within net investment income depending on the nature of the transaction. Fair value movements on insurance assets included within net investment income contributed £205m (2005: £317m).

Note

a For 2005, this reflects the period from 27th July until 31st December 2005.

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Other income

	2007 £m	2006 £m	2005 £m
Increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	**5,592**	7,417	9,234
Increase in liabilities to customers under investment contracts	**(5,592)**	(7,417)	(9,234)
Property rentals	**53**	55	54
Loss on part disposal of Monument credit card portfolio	**(27)**		
Other	**162**	159	93
Other income	**188**	214	147

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.

Impairment charges and other credit provisions

	2007 £m	2006 £m	2005 £m
Impairment charges on loans and advances			
New and increased impairment allowances	**2,871**	2,722	2,129
Releases	**(338)**	(389)	(333)
Recoveries	**(227)**	(259)	(222)
Impairment charges on loans and advances	**2,306**	2,074	1,574
Other credit provisions			
Charges/(credits) in respect of undrawn contractually committed facilities and guarantees	**476**	(6)	(7)
	2,782	2,068	1,567
Impairment charges on loans and advances and other credit provisions Impairment charges on available for sale assets	**13**	86	4
Impairment charges and other credit provisions	**2,795**	2,154	1,571
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures included above:			
Impairment charges on loans and advances	**313**		
Charges in respect of undrawn facilities	**469**		
	782		

Impairment charges and other credit provisions on ABS CDO Super senior and other credit market positions

2007/06

Total impairment charges and other credit provisions increased 30% (£641m) to £2,795m (2006: £2,154m).

Impairment charges on loans and advances and other credit provisions increased 35% (£714m) to £2,782m (2006: £2,068m) reflecting charges of £782m against ABS CDO Super Senior and other credit market positions.

Impairment charges on loans and advances and other credit provisions as a percentage of Group total loans and advances increased to 0.71% (2006: 0.65%); total loans and advances grew 23% to £389,290m (2006: £316,561m).

Retail

Retail impairment charges on loans and advances fell 11% (£204m) to £1,605m (2006: £1,809m). Retail impairment charges as a percentage of period end total loans and advances reduced to 0.98% (2006: 1.30%); total retail loans and advances increased 18% to £164,062m (2006: £139,350m).

Barclaycard impairment charges improved 21% (£229m) to £838m (2006: £1,067m) 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 the increase in impairment charges in Barclaycard International and secured consumer lending.

Impairment charges in UK Retail Banking decreased by £76m (12%) 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.

Impairment charges in International Retail and Commercial Banking excluding Absa rose by £38m (93%) to £79m (2006: £41m) reflecting very strong balance sheet growth in 2006 and 2007 and the impact of lower releases in 2007.

Arrears in some of International Retail and Commercial Banking Absa s retail portfolios deteriorated in 2007, driven by interest rate increases in 2006 and 2007 resulting in pressure on collections.

Wholesale and corporate

Wholesale and corporate impairment charges on loans and advances increased £436m to £701m (2006: £265m). Wholesale and corporate impairment charges as a percentage of period end total loans and advances increased to 0.31% (2006: 0.15%); total loans and advances grew 27% to £225,228m (2006: £177,211m).

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.

The impairment charge in Barclays Commercial Bank increased £38m (15%) to £290m (2006: £252m), 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.

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Results by nature of income and expense

Impairment charges (continued)

2006/05

Total impairment charges increased 37% (£583m) to £2,154m (2005: £1,571m).

Impairment charges on loans and advances and other credit provisions increased 32% (£501m) to £2,068m (2005: £1,567m). Excluding Absa, the increase was 26% (£395m) and largely reflected the continued challenging credit environment in UK unsecured retail lending through 2006. The wholesale and corporate sectors remained stable with a low level of defaults.

The Group impairment charges on loans and advances and other credit provisions as a percentage of year-end total loans and advances of £316,561m (2005: £303,451m) increased to 0.65% (2005: 0.52%).

Retail

Retail impairment charges on loans and advances and other credit provisions increased to £1,809m (2005: £1,254m), including £99m (2005 [a]: £10m) in respect of Absa. Retail impairment charges on loans and advances amounted to 1.30% (2005 [b]: 0.93%) as a percentage of year-end total loans and advances of £139,350m (2005 [b]: £134,420m), including balances in Absa of £20,090m (2005: £20,836m).

In the UK retail businesses, household cash flows remained under pressure leading to a deterioration in consumer credit quality. High debt levels and changing social attitudes to bankruptcy and debt default contributed to higher levels of insolvency and increased impairment charges. In UK cards and unsecured consumer lending, the flows of new delinquencies and the levels of arrears balances declined in the second half of 2006, reflecting more selective customer recruitment, limit management and improved collections.

In UK Home Finance, delinquencies were flat and amounts charged-off remained low. The weaker external environment led to increased credit delinquency in Local Business, where there were both higher balances on caution status and higher flows into delinquency, which both stabilised towards the year end.

Wholesale and corporate

In the wholesale and corporate businesses, impairment charges on loans and advances and other credit provisions decreased to £259m (2005: £313m), including £27m (2005 [a]: £10m) in respect of Absa. The fall was due mainly to recoveries in Barclays Capital as a result of the benign wholesale credit environment. This was partially offset by an increase in Barclays Commercial Bank, reflecting higher charges in Medium Business and growth in lending balances.

The wholesale and corporate impairment charge was 0.15% (2005 [b]: 0.19%) as a percentage of year-end total loans and advances to banks and to customers of £177,211m (2005 [b]: £169,031m), including balances in Absa of £9,299m (2005: £9,731m).

In Absa, impairment charges increased to £126m (2005 [b]: £20m) reflecting a full year of business and normalisation of credit conditions in South Africa following a period of low interest rates.

Impairment on available for sale assets

The total impairment charges in Barclays Capital included losses of £83m (2005: £nil) on an available for sale portfolio where an intention to sell caused the losses to be viewed as other than temporary in nature. These losses in 2006 were primarily due to interest rate movements, rather than credit deterioration, with a corresponding gain arising on offsetting derivatives recognised in net trading income.

Operating expenses

	2007 £m	2006 £m	2005 £m
Staff costs (refer to page 37)	**8,405**	8,169	6,318
Administrative expenses	**3,978**	3,980	3,443
Depreciation	**467**	455	362
Impairment loss property and equipment and intangible assets	**16**	21	9
Operating lease rentals	**414**	345	316
Gain on property disposals	**(267)**	(432)	
Amortisation of intangible assets	**186**	136	79
Operating expenses	**13,199**	12,674	10,527

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 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 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.

The Group cost:income ratio improved two percentage points to 57% (2006: 59%).

2006/05

Operating expenses increased 20% (£2,147m) to £12,674m (2005: £10,527m). The inclusion of Absa contributed operating expenses of £1,496m (2005 [a]: £664m). Group operating expenses excluding Absa grew 13%, reflecting a higher level of business activity and an increase in performance related pay.

Administrative expenses increased 16% (£537m) to £3,980m (2005: £3,443m). The inclusion of Absa contributed administrative expenses of £579m (2005 [a]: £257m). Group administrative expenses excluding Absa grew 7% principally as a result of higher business activity in UK Banking and Barclays Capital.

Operating lease rentals increased 9% (£29m) to £345m (2005: £316m). The inclusion of Absa contributed operating lease rentals of £73m (2005 [a]: £27m), which more than offset the absence of double occupancy costs incurred in 2005, associated with the Head office relocation to Canary Wharf.

Operating expenses were reduced by gains from the sale of property of £432m (2005: £nil) as the Group took advantage of historically low yields on property to realise gains on some of its freehold portfolio.

Amortisation of intangible assets increased 72% (£57m) to £136m (2005: £79m) primarily reflecting the inclusion of Absa for the full year.

The Group cost:income ratio improved to 59% (2005: 61%). This reflected improved productivity.

Notes

a For 2005, this reflects the period from 27th July until 31st December 2005.

b In 2005 the analysis of loans and advances to customers between retail business and wholesale and corporate business has been reclassified to reflect enhanced methodology implementation.

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Staff costs

	2007 £m	2006 £m	2005 £m
Salaries and accrued incentive payments	**6,993**	6,635	5,036
Social security costs	**508**	502	412
Pension costs			
defined contribution plans	**141**	128	76
defined benefit plans	**150**	282	271
Other post-retirement benefits	**10**	30	27
Other	**603**	592	496
Staff costs	**8,405**	8,169	6,318

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.

2006/05

Staff costs increased 29% (£1,851m) to £8,169m (2005: £6,318m). The inclusion of Absa contributed staff costs of £694m (2005 [a]: £296m). Group staff costs excluding Absa rose 24%.

Salaries and accrued incentive payments rose 32% (£1,599m) to £6,635m (2005: £5,036m), principally due to increased performance related payments and the full year inclusion of Absa. The inclusion of Absa contributed salaries and incentive payments of £615m (2005 [a]: £276m). Group salaries and accrued incentive payments excluding Absa rose 26%.

Staff numbers

	2007	2006	2005
UK Banking	**41,200**	42,600	41,100
UK Retail Banking	**32,800**	34,500	33,300
Barclays			
Commercial Bank	**8,400**	8,100	7,800
Barclaycard	**7,800**	8,500	7,700
IRCB	**58,300**	47,800	45,200
IRCB ex Absa	**22,100**	13,900	12,500
IRCB Absa	**36,200**	33,900	32,700
Barclays Capital	**16,200**	13,200	9,900
Barclays Global Investors	**3,400**	2,700	2,300
Barclays Wealth	**6,900**	6,600	6,200

Head office functions and other operations	**1,100**	1,200	900
Total Group permanent staff worldwide	**134,900**	122,600	113,300

2007/06

Staff numbers are shown on a full-time equivalent basis. Total Group permanent and fixed term contract staff comprised 61,900 (2006: 62,400) in the UK and 73,000 (2006: 60,200) internationally.

UK Retail Banking headcount decreased 1,700 to 32,800 (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 300 to 8,400 (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 700 to 7,800 (2006: 8,500), 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.

International Retail and Commercial Banking staff numbers increased 10,500 to 58,300 (2006: 47,800). International Retail and Commercial Banking excluding Absa staff numbers increased 8,200 to 22,100 (2006: 13,900) due to growth in the distribution network. International Retail and Commercial Banking Absa staff numbers increased 2,300 to 36,200 (2006: 33,900), 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.

Note

a For 2005, this reflects the period from 27th July until 31st December 2005.

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Results by nature of income and expense

Staff numbers (continued)

2006/05

Total Group permanent and contract staff comprised 62,400 (2005: 59,100) in the UK and 60,200 (2005: 54,200) internationally.

UK Banking staff numbers increased 1,500 to 42,600 (2005: 41,100), primarily reflecting the inclusion in UK Retail Banking of mortgage processing staff involved in activities previously outsourced.

Barclaycard staff numbers rose 800 to 8,500 (2005: 7,700), reflecting growth of 400 in Barclaycard US and increases in operations and customer-facing staff in the UK.

International Retail and Commercial Banking increased staff numbers 2,600 to 47,800 (2005: 45,200). International Retail and Commercial Banking excluding Absa increased staff numbers by 1,400 to 13,900 (2005: 12,500), mainly due to growth in continental Europe and Africa. International Retail and Commercial Banking Absa increased staff numbers by 1,200 to 33,900 (2005: 32,700), reflecting continued growth in the business.

Barclays Capital staff numbers increased 3,300 during 2006 to 13,200 (2005: 9,900) and included 1,300 from the acquisition of HomEq. Organic growth was broadly based across all regions and reflected further investments in the front office, systems development and control functions to support continued business expansion.

Barclays Global Investors increased staff numbers 400 to 2,700 (2005: 2,300) spread across regions, product groups and support functions, reflecting continued investment to support strategic initiatives.

Barclays Wealth staff numbers rose 400 to 6,600 (2005: 6,200) to support the continued expansion of the business, including increased hiring of client-facing staff.

Head office functions and other operations staff numbers grew 300 to 1,200 (2005: 900) primarily reflecting the centralisation of functional activity and the increased regulatory environment and audit demands as a result of the expansion of business areas.

Share of post-tax results of associates and joint ventures

	2007	2006	2005
	£m	£m	£m
Profit from associates	33	53	53
Profit/(loss) from joint ventures	9	(7)	(8)
Share of post-tax results of associates and joint ventures	42	46	45

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.

2006/05

The share of post-tax results of associates and joint ventures increased 2% (£1m) to £46m (2005: £45m).

Of the £46m share of post-tax results of associates and joint ventures, FirstCaribbean International Bank contributed £41m (2005: £37m).

Profit on disposal of subsidiaries, associates and joint ventures

	2007	2006	2005
	£m	£m	£m
Profit on disposal of subsidiaries,associates and joint ventures	28	323	

2007/06

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

2006/05

The profit on disposal of subsidiaries, associates and joint ventures includes £247m profit on disposal of FirstCaribbean International Bank and £76m from the sale of interests in vehicle leasing and vendor finance businesses.

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Tax

The overall tax charge is explained in the following table:

	2007 £m	2006 £m	2005 £m
Profit before tax	**7,076**	7,136	5,280
Tax charge at average UK corporation tax rate of 30%	**2,123**	2,141	1,584
Prior year adjustments	**(37)**	24	(133)
Differing overseas tax rates	**(77)**	(17)	(35)
Non-taxable gains and income (including amounts offset by unrecognised tax losses)	**(136)**	(393)	(129)
Share-based payments	**72**	27	(12)
Deferred tax assets not previously recognised	**(158)**	(4)	(7)
Change in tax rates	**24**	4	3
Other non-allowable expenses	**170**	159	168
Overall tax charge	**1,981**	1,941	1,439
Effective tax rate	**28%**	27%	27%

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 28.0% (2006: 27.2%). 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.

2006/05

The charge for the period is based upon a UK corporation tax rate of 30% for the calendar year 2006 (2005: 30%). The effective rate of tax for 2006, based on profit before tax, was 27.2% (2005: 27.3%). The effective tax rate differs from 30% as it takes account of the different tax rates which are applied to the profits earned outside the UK, disallowable expenditure, certain non-taxable gains and adjustments to prior year tax provisions. The effective tax rate for 2006 is consistent with the prior period. The tax charge for the year includes £1,234m (2005: £961m) arising in the UK and £707m (2005: £478m) arising overseas.

The profit on disposal of subsidiaries, associates and joint ventures of £323m was substantially offset by losses or exemptions. The effective tax rate on profit before business disposals was 28.5%.

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Financial review

Total assets and risk weighted assets

Total assets

	2007	2006	2005
	£m	£m	£m
UK Banking	161,777	147,576	137,981
UK Retail Banking	87,833	81,692	78,066
Barclays Commercial Bank	73,944	65,884	59,915
Barclaycard	22,164	20,082	18,236
IRCB	89,457	68,588	63,383
IRCB ex Absa	52,204	38,191	34,022
IRCB Absa	37,253	30,397	29,361
Barclays Capital	839,662	657,922	601,193
Barclays Global Investors	89,224	80,515	80,900
Barclays Wealth	18,024	15,022	13,401
Head office functions and other operations	7,053	7,082	9,263
Total assets	1,227,361	996,787	924,357

Risk weighted assets [a]

	2007	2006	2005
	£m	£m	£m
UK Banking	99,836	92,981	87,971
UK Retail Banking	45,992	43,020	40,845
Barclays Commercial Bank	53,844	49,961	47,126
Barclaycard	19,929	17,035	13,625
IRCB	53,269	40,810	41,069
IRCB ex Absa	29,667	20,082	20,235
IRCB Absa	23,602	20,728	20,834
Barclays Capital	169,124	137,635	116,677
Barclays Global Investors	1,994	1,375	1,456
Barclays Wealth	7,692	6,077	4,305
Head office functions and other operations	1,632	1,920	4,045
Risk weighted assets	353,476	297,833	269,148

Note

a Risk weighted assets are calculated under Basel I

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). The increase in risk weighted assets since 2006 reflected a rise of £31.6bn in the banking book and a rise of £24.0bn in the trading book.

UK Retail Banking total assets increased 7% to £87.8bn (2006: £81.7bn). This was mainly attributable to growth in mortgage balances. Risk weighted assets increased by 7% to £46.0bn (2006: £43.0bn) with growth in mortgages partially offset by an increase in securitised balances and other reductions.

Barclays Commercial Bank total assets grew 12% to £73.9bn (2006: £65.9bn) driven by good growth across lending products. Risk weighted assets increased 8% to £53.8bn (2006: £50.0bn), reflecting asset growth partially offset by increased regulatory netting and an increase in securitised balances.

Barclaycard total assets increased 10% to £22.2bn (2006: £20.1bn). Risk weighted assets increased 17% to £19.9bn (2006: £17.0bn), 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.

International Retail and Commercial Banking excluding Absa total assets grew 37% to £52.2bn (2006: £38.2bn). This growth was mainly driven by increases in retail mortgages and unsecured lending in Western Europe and increases in unsecured lending in Emerging Markets. Risk weighted assets increased 48% to £29.7bn (2006: £20.1bn), reflecting asset growth and a change in product mix.

International Retail and Commercial Banking Absa total assets increased 23% to £37.3bn (2006: £30.4bn), primarily driven by increases in mortgages, credit cards and commercial property finance. Risk weighted assets increased 14% to £23.6bn (2006: £20.7bn), reflecting balance sheet growth.

Barclays Capital total assets rose 28% to £839.7bn (2006: £657.9bn). Derivative assets increased £109.3bn 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 43% 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 20% to £18.0bn (2006: £15.0bn) reflecting strong growth in lending to high net worth, affluent and intermediary clients. Risk weighted assets increased 26% to £7.7bn (2006: £6.1bn) reflecting the increase in lending.

Head office functions and other operations total assets remained flat at £7.1bn (2006: £7.1bn). Risk weighted assets decreased 16% to £1.6bn (2006: £1.9bn).

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2006/05

Total assets increased 8% to £996.8bn (2005: £924.4bn). Risk weighted assets increased 11% to £297.8bn (2005: £269.1bn). Loans and advances to customers that have been securitised increased £5.8bn to £24.4bn (2005: £18.6bn). The increase in risk weighted assets since 2005 reflects a rise of £18.1bn in the banking book and a rise of £10.9bn in the trading book.

UK Retail Banking total assets increased 5% to £81.7bn (2005: £78.1bn). This was mainly attributable to growth in mortgage balances. Risk weighted assets increased 5% to £43.0bn (2005: £40.8bn) also primarily reflecting the growth in mortgage balances.

Barclays Commercial Bank total assets increased 10% to £65.9bn (2005: £59.9bn) reflecting good growth across short, medium and long term lending products. Risk weighted assets increased 6% to £50.0bn (2005: £47.1bn), reflecting asset growth and increased regulatory netting.

Barclaycard total assets increased 10% to £20.1bn (2005: £18.2bn) driven by growth in lending balances in the international businesses and FirstPlus. Risk weighted assets increased 25% to £17.0bn (2005: £13.6bn), primarily reflecting the increase in total assets and lower securitised balances.

International Retail and Commercial Banking-excluding Absa total assets increased 12% to £38.2bn (2005: £34.0bn) mainly reflecting increases in mortgage and other lending. Risk weighted assets remained flat at £20.1bn (2005: £20.2bn), with balance sheet growth offset by the sale of FirstCaribbean International Bank.

International Retail and Commercial Banking-Absa total assets increased 3% to £30.4bn (2005: £29.4bn). Risk weighted assets remained flat at £20.7bn (2005: £20.8bn). This reflects very strong growth in Rand terms offset by a 21% decline in the value of the Rand. In Rand terms assets grew 31% to R417bn (2005: R319bn) and risk weighted assets grew 25% to R284bn (2005: R227bn) due to strong growth in mortgage lending along with growth in corporate lending.

Barclays Capital total assets increased 9% to £657.9bn (2005: £601.2bn). This reflected continued expansion of the business with growth in reverse repurchase agreements, debt securities and traded equity securities. Risk weighted assets increased 18% to £137.6bn (2005: £116.7bn) in line with risk, driven by the growth in equity derivatives, credit derivatives and fixed income.

Barclays Global Investors total assets remained flat at £80.5bn (2005: £80.9bn). The majority of total assets relates to asset management products with equal and offsetting balances reflected within liabilities to customers. Risk weighted assets decreased 7% to £1.4bn (2005: £1.5bn).

Barclays Wealth total assets increased 12% to £15.0bn (2005: £13.4bn) reflecting strong growth in lending to high net worth, affluent and intermediary clients. Risk weighted assets increased 42% to £6.1bn (2005: £4.3bn) above the rate of balance sheet growth driven by changes in the mix of lending and growth in guarantees.

Head office functions and other operations total assets decreased 24% to £7.1bn (2005: £9.3bn). Risk weighted assets decreased 53% to £1.9bn (2005: £4.0bn).

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Financial review

Capital management

Total shareholders equity

	2007 £m	2006 £m	2005 £m
Barclays PLC Group			
Called up share capital	1,651	1,634	1,623
Share premium account	56	5,818	5,650
Available for sale reserve	154	132	225
Cash flow hedging reserve	26	(230)	70
Capital redemption reserve	384	309	309
Other capital reserve	617	617	617
Currency translation reserve	(307)	(438)	156
Other reserves	874	390	1,377
Retained earnings	20,970	12,169	8,957
Less: Treasury shares	(260)	(212)	(181)
Shareholders equity excluding minority interests	23,291	19,799	17,426
Minority interests	9,185	7,591	7,004
Total shareholders equity	32,476	27,390	24,430

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 162.

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.

2006/05

Total shareholders equity increased £2,960m to £27,390m (2005: £24,430m).

Called up share capital and share premium increased by £11m and £168m respectively representing the issue of shares to employees under share option plans.

Retained earnings increased by £3,212m primarily reflecting profit attributable to equity holders of the parent of £4,571m partly offset by dividends paid of £1,771m.

Movements in other reserves reflect the relevant amounts recorded in the consolidated statement of recognised income and expense.

Minority interests increased £587m primarily reflecting the issuance of preference shares by Barclays Bank PLC and Absa.

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.

	2007 £m	2006 £m	2005 £m
Barclays Bank PLC Group			
Called up share capital	2,382	2,363	2,348
Share premium account	10,751	9,452	8,882
Available for sale reserve	111	184	257
Cash flow hedging reserve	26	(230)	70
Currency translation reserve	(307)	(438)	156
Other reserves	(170)	(484)	483
Other shareholders equity	2,687	2,534	2,490
Retained earnings	14,222	11,556	8,462
Shareholders equity excluding minority interests	29,872	25,421	22,665
Minority interests	1,949	1,685	1,578
Total shareholders equity	31,821	27,106	24,243

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Capital ratios

	Basel II	Basel I		Basel I		Basel I	
	2007	**2007**		2006		2005	
	Barclays PLC Group	**Barclays PLC Group**	**Barclays Bank PLC Group**	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group
Capital ratios	**%**	**%**	**%**	%	%	%	%
Tier 1 ratio	**7.6**	**7.8**	**7.5**	7.7	7.5	7.0	6.9
Risk asset ratio	**11.2**	**12.1**	**11.8**	11.7	11.5	11.3	11.2
Risk weighted assets	**£m**	**£m**	**£m**	£m	£m	£m	£m
Banking book							
on-balance sheet	**n/a**	**231,496**	**231,491**	197,979	197,979	180,808	180,808
off-balance sheet	**n/a**	**32,620**	**32,620**	33,821	33,821	31,351	31,351
Associates and joint ventures	**n/a**	**1,354**	**1,354**	2,072	2,072	3,914	3,914
Total banking book	**244,474**	**265,470**	**265,465**	233,872	233,872	216,073	216,073
Trading book							
Market risks	**39,812**	**36,265**	**36,265**	30,291	30,291	23,216	23,216
Counterparty and settlement risks	**41,203**	**51,741**	**51,741**	33,670	33,670	29,859	29,859
Total trading book	**81,015**	**88,006**	**88,006**	63,961	63,961	53,075	53,075
Operational risk	**28,389**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Total risk weighted assets	**353,878**	**353,476**	**353,471**	297,833	297,833	269,148	269,148

Minimum requirements under the FSA s Basel rules are expressed as a ratio of capital resources to risk weighted assets (Risk Asset Ratio). Risk weighted assets are a function of risk weights applied to the Group s assets using calculations developed by the Basel Committee on Banking Supervision.

Basel I

At 31st December 2007, the Tier 1 capital ratio was 7.8% and the risk asset ratio was 12.1%. From 31st December 2006, total net capital resources rose £7.9bn and risk weighted assets increased £55.6bn.

Tier 1 capital rose £4.4bn, including £2.3bn arising from profits attributable to equity holders of the parent net of dividends paid. Minority interests within Tier 1 capital increased £2.7bn primarily due to the issuance of reserve capital instruments and preference shares. The deduction for goodwill and intangible assets increased by £1.1bn. Tier 2 capital increased £3.1bn mainly as a result of an increase of £3.0bn of dated loan capital.

Basel II

Under Basel II, effective from 1st January 2008, the Group has been granted approval by the FSA to adopt the advanced approaches to credit and operational risk management. Pillar 1 risk weighted assets will be generated using the Group s risk models. Pillar 1 minimum capital requirements under Basel II are Pillar 1 risk weighted assets multiplied by 8%, the internationally agreed minimum ratio.

Under Pillar 2 of Basel II, the Group is subject to an overall regulatory capital requirement (expressed in £ terms) based on individual capital guidance (ICG) received from the FSA. The ICG imposes additional capital requirements in excess of Pillar 1 minimum capital requirements. Barclays received its ICG from the FSA in December 2007.

Risk weighted assets calculated on a Basel II basis are broadly in line with risk weighted assets calculated on a Basel I basis. A reduction in credit and counterparty risk weighted assets of £31.5bn more than offset the identification of capital equivalent risk weighted assets of £28.4bn attributable to operational risk. The reduced risk weighted assets attributable to credit risk were mainly driven by recognition of the low risk profile of first charge residential mortgages in UK Retail Banking and Absa and the use of internal models to assess exposures to counterparty risk in the trading book. These were partially offset by higher counterparty risk weightings in emerging markets and greater recognition of undrawn commitments.

Compared to Basel I, deductions from Tier 1 and Tier 2 capital under Basel II include additional amounts relating to expected loss and securitisations. For advanced portfolios, any excess of expected loss over impairment allowances is deducted half from Tier 1 and half from Tier 2 capital. Deductions relating to securitisation transactions, which are made from total capital under Basel I, are deducted half from Tier 1 and half from Tier 2 capital under Basel II.

For portfolios treated under the standardised approach, the inclusion of collectively assessed impairment allowances in Tier 2 capital remains the same under Basel II. Collectively assessed impairment allowances against exposures treated under Basel II advanced approaches are not eligible for direct inclusion in Tier 2 capital.

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Financial review

Capital resources and deposits

Total net capital resources

	Basel II 2007	Basel I 2007		Basel I 2006		Basel I 2005	
	£m	£m		£m		£m	
Capital resources (as defined for regulatory purposes)	**Barclays PLC Group**	**Barclays PLC Group**	**Barclays Bank PLC Group**	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group
Tier 1							
Called up share capital	**1,651**	**1,651**	**2,382**	1,634	2,363	1,623	2,348
Eligible reserves	**22,939**	**22,526**	**25,615**	19,608	21,700	16,837	18,646
Minority interests	**10,551**	**10,551**	**5,857**	7,899	4,528	6,634	3,700
Tier One Notes	**899**	**899**	**899**	909	909	981	981
Less: Intangible assets	**(8,191)**	**(8,191)**	**(8,191)**	(7,045)	(7,045)	(7,180)	(7,180)
Less: Deductions from Tier 1 capital	**(1,106)**	**(28)**	**(28)**				
Total qualifying tier 1 capital	**26,743**	**27,408**	**26,534**	23,005	22,455	18,895	18,495
Tier 2							
Revaluation reserves	**26**	**26**	**26**	25	25	25	25
Available for sale equity	**295**	**295**	**295**	221	221	223	223
Collectively assessed impairment allowances	**440**	**2,619**	**2,619**	2,556	2,556	2,306	2,306
Minority interests	**442**	**442**	**442**	451	451	515	515
Qualifying subordinated liabilities							
Undated loan capital	**3,191**	**3,191**	**3,191**	3,180	3,180	3,212	3,212
Dated loan capital	**10,578**	**10,578**	**10,578**	7,603	7,603	7,069	7,069
Less: Deductions from Tier 2 capital	**(1,106)**	**(28)**	**(28)**				
Total qualifying tier 2 capital	**13,866**	**17,123**	**17,123**	14,036	14,036	13,350	13,350
Less: Regulatory deductions							
Investments not consolidated for supervisory purposes	**(633)**	**(633)**	**(633)**	(982)	(982)	(782)	(782)
Other deductions	**(193)**	**(1,256)**	**(1,256)**	(1,348)	(1,348)	(961)	(961)
Total deductions	**(826)**	**(1,889)**	**(1,889)**	(2,330)	(2,330)	(1,743)	(1,743)
Total net capital resources	**39,783**	**42,642**	**41,768**	34,711	34,161	30,502	30,102

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Financial review

Deposits and short-term borrowings

Deposits

Deposits include deposits from banks and customers accounts.

	Average: year ended 31st December		
	2007 £m	2006 £m	2005 £m
Deposits from banks			
Customers in the United Kingdom	15,321	12,832	9,703
Customers outside the United Kingdom:			
Other European Union	33,162	30,116	29,092
United States	6,656	7,352	8,670
Africa	4,452	4,140	3,236
Rest of the World	36,626	35,013	39,060
Total deposits from banks	96,217	89,453	89,761
Customer accounts			
Customers in the United Kingdom	187,249	173,767	155,252
Customers outside the United Kingdom:			
Other European Union	23,696	22,448	20,773
United States	21,908	17,661	15,167
Africa	29,855	23,560	17,169
Rest of the World	23,032	19,992	16,911
Customer accounts	285,740	257,428	225,272

Deposits from banks in offices in the United Kingdom from non-residents amounted to £45,162m (2006: £41,762m).

	Year ended 31st December		
	2007 £m	2006 £m	2005 £m
Customer accounts	294,987	256,754	238,684
In offices in the United Kingdom:			
Current and Demand accounts interest free	33,400	25,650	22,980
Current and Demand accounts interest bearing	32,047	31,769	28,416
Savings accounts	70,682	62,745	57,715
Other time deposits retail	36,123	36,110	35,142
Other time deposits wholesale	65,726	53,733	42,967

Total repayable in offices			
in the United Kingdom	**237,978**	210,007	187,220
In offices outside the United Kingdom:			
Current and Demand accounts interest free	**2,990**	2,169	2,300
Current and Demand accounts interest bearing	**11,570**	17,626	20,494
Savings accounts	**3,917**	3,041	3,230
Other time deposits	**38,532**	23,911	25,440
Total repayable in offices outside the United Kingdom	**57,009**	46,747	51,464

Customer accounts deposits in offices in the United Kingdom received from non-residents amounted to £49,179m (2006: £40,291m).

Note

a Average interest rate during the year for commercial paper and negotiable certificates of deposit have been restated for 2006 and 2005 to reflect methodology enhancements.

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.

	2007	2006	2005
	£m	£m	£m
Year-end balance	**90,546**	79,562	75,127
Average balance	**96,217**	89,453	89,761
Maximum balance	**109,586**	97,165	103,397
Average interest rate during year	**4.1%**	4.2%	2.6%
Year-end interest rate	**4.0%**	4.3%	3.6%

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.

	2007	2006	2005
	£m	£m	£m
Year-end balance	**23,451**	26,546	28,275
Average balance	**26,229**	29,740	22,309
Maximum balance	**30,736**	31,859	28,598
Average interest rate during year [a]	**5.4%**	4.4%	3.1%
Year-end interest rate	**5.2%**	5.0%	4.5%

Negotiable certificates of deposit

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

	2007	2006	2005
	£m	£m	£m
Year-end balance	**58,401**	52,800	43,109
Average balance	**55,394**	49,327	45,533

Maximum balance	**62,436**	60,914	53,456
Average interest rate during year [a]	**5.1%**	5.3%	3.9%
Year-end interest rate	**5.0%**	5.1%	4.5%

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Financial Review

Commitments and contractual obligations

Commitments and contractual obligations

Commitments and contractual obligations include loan commitments, contingent liabilities, debt securities and purchase obligations.

Commercial commitments

	Amount of commitment expiration per period				
	Less than one year £m	Between one to three years £m	Between three to five years £m	After five years £m	Total amounts committed £m
Acceptances and endorsements	365				365
Guarantees and letters of credit pledged as collateral security	29,136	2,711	1,971	1,874	35,692
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

	Payments due by period				
	Less than one year £m	Between one to three years £m	Between three to five years £m	After five years £m	Total £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 £6,631m.

Further information on the contractual maturity of the Group s assets and liabilities is given in Note 48.

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Securities

Securities

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

	2007		2006		2005	
	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	78	81	758	761	31	31
Other government	7,383	7,434	12,587	12,735	14,860	14,827
Other public bodies	634	632	280	277	216	216
Mortgage and asset backed securities	1,367	1,429	1,706	1,706	3,062	3,062
Corporate issuers	19,664	19,649	27,089	27,100	25,590	25,597
Other issuers	9,547	9,599	5,492	5,450	6,265	6,257
Equity securities	1,676	1,418	1,371	1,047	1,250	1,007
Investment securities available for sale	40,349	40,242	49,283	49,076	51,274	50,997
Other securities held for trading						
Debt securities:						
United Kingdom government	3,832	n/a	4,986	n/a	4,786	n/a
Other government	51,104	n/a	46,845	n/a	46,426	n/a
Mortgage and asset backed securities	37,038	n/a	29,606	n/a	17,644	n/a
Bank and building society certificates of deposit	17,751	n/a	14,159	n/a	15,837	n/a
Other issuers	43,053	n/a	44,980	n/a	43,674	n/a
Equity securities	36,307	n/a	31,548	n/a	20,299	n/a
Other securities held for trading	189,085	n/a	172,124	n/a	148,666	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.

Mortgage and asset backed securities and other issuers within held for trading debt securities have been restated in 2006 and 2005 to reflect changes in classification of assets.

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 2007, 2006 and 2005, the Group held the following government securities which exceeded 10% of shareholders equity.

Government securities

	2007 Book value	2006 Book value	2005 Book value
	£m	£m	£m
United States	15,156	18,343	16,093
Japan	9,124	15,505	14,560
Germany	5,136	4,741	6,376

France	3,538	4,336	4,822
Italy	5,090	3,419	4,300
Spain	3,674	2,859	2,456
Netherlands	1,270	395	2,791

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 £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Government	1,354	5.8	3,997	4.0	788	1.6	1,322	1.1	7,461	3.5
Other public bodies	546	8.6	78	1.3			10	5.2	634	7.7
Other issuers	11,849	5.2	12,542	4.9	4,343	5.6	1,844	7.0	30,578	5.2
Total book value	13,749	5.4	16,617	4.6	5,131	5.0	3,176	4.5	38,673	5.0

The yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2007 by the fair value of securities held at that date.

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Critical accounting estimates

The Group s accounting policies are set out on pages 149 to 157.

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. 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. 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.

Valuation methodology

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm s length basis.

(b) Valuation techniques using market observable inputs. Such techniques may include:

- using recent arm s length market transactions;
- reference to the current fair value of similar instruments;
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Valuation techniques used above, but which include significant inputs that are not observable. On initial recognition of financial instruments measured using such techniques the transaction price is deemed to provide the best evidence of fair value for accounting purposes.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and to observed transaction prices where available.

The following tables set out the total financial instruments stated at fair value as at 31st December 2007 and those fair values are calculated with valuation techniques using unobservable inputs.

	Unobservable inputs £m	Total £m
Assets stated at fair value		
Trading portfolio assets	4,457	193,691
Financial assets designated at fair value:		
held on own account	16,819	56,629
held in respect of linked liabilities to customers under investment contracts		90,851
Derivative financial instruments	2,707	248,088
Available for sale financial investments	810	43,072
Total	24,793	632,331

	Unobservable inputs £m	Total £m
Liabilities stated at fair value		
Trading portfolio liabilities	42	65,402
Financial liabilities designated at fair value	6,172	74,489
Liabilities to customers under investment contracts		92,639
Derivative financial instruments	4,382	248,288
Total	10,596	480,818

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the market place, the maturity of market modelling and the nature of the transaction (bespoke or generic).

To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependant on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities, appropriate proxies, or other analytical techniques. The effect of changing the assumptions for those financial instruments for which the fair values were measured using valuation techniques that are determined in full or in part on assumptions that are not supported by observable inputs to a range of reasonably possible alternative assumptions, would be to provide a range of £1.2bn (2006: £0.1bn) lower to £1.5bn (2006: £0.1bn) higher than the fair values recognised in the financial statements.

The size of this range will vary over time in response to market volatility, market uncertainty and changes to benchmark proxy relationships of similar assets and liabilities. The calculation of this range is performed on a consistent basis each period.

Further information on the fair value of financial instruments is provided in Note 49 to the accounts.

The following summary sets out those instruments which use inputs where it may be necessary to use valuation techniques as described above.

Corporate bonds

Corporate bonds are generally valued using observable quoted prices or recently executed transactions. Where observable price quotations are not available, the fair value is determined based on cash flow models where significant inputs may include yield curves, bond or single name credit default swap spreads.

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Mortgage whole loans

The fair value of mortgage whole loans are determined using observable quoted prices or recently executed transactions for comparable assets. Where observable price quotations or benchmark proxies are not available, fair value is determined using cash flow models where significant inputs include yield curves, collateral specific loss assumptions, asset specific prepayment assumptions, yield spreads and expected default rates.

Commercial mortgage backed securities and asset backed securities

Commercial mortgage backed securities and asset backed securities (ABS) (residential mortgages, credit cards, auto loans, student loans and leases) are generally valued using observable information. Wherever possible, the fair value is determined using quoted prices or recently executed transactions. Where observable price quotations are not available, fair value is determined based on cash flow models where the significant inputs may include yield curves, credit spreads, prepayment rates. Securities that are backed by the residual cash flows of an asset portfolio are generally valued using similar cash flow models.

The fair value of home equity loan bonds are determined using models which use scenario analysis with significant inputs including age, rating, internal grade, and index prices.

Collateralised debt obligations

The valuation of collateralised debt obligations (CDOs) notes is first based on an assessment of the probability of an event of default occurring due to a credit deterioration. This is determined by reference to the probability of event of default occurring and the probability of exercise of contractual rights related to event of default. The notes are then valued by determining appropriate valuation multiples to be applied to the contractual cash flows. These are based on inputs including the prospective cash flow performance of the underlying securities, the structural features of the transaction and the net asset value of the underlying portfolio.

Private equity

The fair value of private equity is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies, price:earnings comparisons and turnover multiples. For each investment the relevant methodology is applied consistently over time.

Own credit on financial liabilities

The carrying amount of financial liabilities held at fair value is adjusted to reflect the effect of changes in own credit spreads. As a result, the carrying value of issued notes that have been designated at fair value through profit and loss is adjusted by reference to the movement in the appropriate spreads. The resulting gain or loss is recognised in the income statement.

Derivatives

Derivative contracts can be exchange traded or over the counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit standing of reference entities, equity prices, fund levels, commodity prices or indices on these assets.

The fair value of OTC derivative contracts are modelled using a series of techniques, including closed form analytical formulae (such as the Black-Scholes option pricing model) and simulation based models. The choice of model is dependant on factors such as; the complexity of the product, inherent risks and hedging strategy: statistical behaviour of the underlying, and ability of the model to price consistently with observed market transactions. For many pricing models there is no material subjectivity because the methodologies employed do not necessitate significant judgement and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps and option markets. In the case of more established derivative products, the pricing models used are widely accepted and used by the other market participants.

Significant inputs used in these models may include yield curves, credit spreads, recovery rates, dividend rates, volatility of underlying interest rates, equity prices or foreign exchange rates and, in some cases, correlation between these inputs. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data.

New, long dated or complex derivative products may require a greater degree of judgement in the implementation of appropriate valuation techniques, due to the complexity of the valuation assumptions and the reduced observability of inputs. The valuation of more complex products may use more generic derivatives as a component to calculating the overall value.

Derivatives where valuation involves a significant degree of judgement include:

Fund derivatives

Fund derivatives are derivatives whose underlyings include mutual funds, hedge funds, indices and multi asset portfolios. They are valued using underlying fund prices, yield curves and available market information on the level of the hedging risk. Some fund derivatives are valued using unobservable information, generally where the level of the hedging risk is not observable in the market. These are valued taking account of risk of the underlying fund or collection of funds, diversification of the fund by asset, concentration by geographic sector, strategy of the fund, size of the transaction and concentration of specific fund managers.

Commodity derivatives

Commodity derivatives are valued using models where the significant inputs may include interest rate yield curves, commodity price curves, volatility of the underlying commodities and, in some cases, correlation between these inputs, which are generally observable. This approach is applied to base metal, precious metal, energy, power, gas, emissions, soft commodities and freight positions. Due to the significant time span in the various market closes, curves are constructed using differentials to a benchmark curve to ensure that all curves are valued using the dominant market base price.

Structured credit derivatives

Collateralised synthetic obligations (CSOs)are structured credit derivatives which reference the loss profile of a portfolio of loans, debts or synthetic underlyings. The reference asset can be a corporate credit or an asset backed credit. For CSOs that reference corporate credits an analytical model is used. For CSOs on asset backed underlyings, due to the path dependent nature of a CSO on an amortising portfolio a Monte Carlo simulation is used rather than analytic approximation. The expected loss probability for each reference credit in the portfolio is derived from the single name credit default swap spread curve and in addition, for ABS references, a prepayment rate assumption. A simulation is then used to compute survival time which allows us to calculate the marginal loss over each payment period by reference to estimated recovery rates. Significant inputs include prepayment rates, cumulative default rates, and recovery rates.

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.

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Financial review

Critical accounting estimates

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 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 £1,605m (2006: £1,809m) and amounts to 70% (2006: 87%) of the total impairment charge on loans and advances in 2007.

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 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 £701m (2006: £265m) or 30% (2006: 13%) of the total impairment charge on loans and advances in 2007. Further information on impairment allowances is set out on pages 84 to 85.

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 the Absa and Woolwich acquisitions. The goodwill impairment testing performed in 2007 indicated that none of the goodwill was impaired. Management believes that reasonable changes in key assumptions used to determine the recoverable amounts of Absa and Woolwich goodwill would not result in impairment.

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 assets 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 arms-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 Absa acquisition.

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 surplus across all pension and post-retirement schemes as at 31st December 2007 was a surplus of £393m (2006: £817m deficit). This comprises net recognised liabilities of £1,501m (2006: £1,719m) and unrecognised actuarial gains of £1,894m (2006: £902m). The net recognised liabilities comprises retirement benefit liabilities of £1,537m (2006: £1,807m) relating to schemes that are in deficit, and assets of £36m (2006: £88m) relating to schemes that are in surplus. The Group s IAS 19 pension surplus in respect of the main UK scheme as at 31st December 2007 was £668m (2006: £495m deficit). The estimated actuarial funding position of the main UK pension scheme as at 31st December 2007, estimated from the triennial valuation in 2004, was a surplus of £1,200m (2006: £1,300m). Cash contributions to the main UK scheme were £355m (2006: £351m).

Further information on retirement benefit obligations, including assumptions is set out in Note 30 to the accounts.

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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 46.

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 46.

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 ongoing 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

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 2008 has been assessed and included in the determination of impairment charges and other credit provisions (£782m in relation to ABS CDO Super Senior and other credit market exposures for the year ended 31st December 2007).

The Group s exposure to ABS CDO Super Senior positions before hedging was £6,018m as at 31st December 2007. This includes £1,149m of undrawn facilities provided to mezzanine transactions (exposure stated net of writedowns and charges). Undrawn facilities provided to unconsolidated CDOs are included as part of commitments in Note 34 to the accounts.

The remaining £4,869m is the Group s exposure to High Grade CDOs, stated net of writedowns and charges. £3,782m of drawn balances are included within loans and advances on the balance sheet, with the remaining £1,087m representing consolidated High Grade CDOs accounted for on a fair value basis.

Collateral

The collateral underlying unconsolidated CDOs comprised 77% residential mortgage backed securities, 6% non-residential asset backed securities and 17% in other categories, including 10% ABS CDO exposure (a proportion of which will be backed by residential mortgage collateral).

The remaining Weighted Average Life (WAL) of all collateral is 3.9 years. The combined Net Asset Value (NAV) for all of the CDOs was £2.8bn below the nominal amount, equivalent to an aggregate 40.2% 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. On mezzanine CDOs, this portion of the capital structure is unfunded, but a liquidity facility is provided to support the level of synthetic instruments within each transaction. The senior portion covered by liquidity facilities is on average 79% of the capital structure.

The initial WAL of the notes in issue averaged 7.1 years. The full contractual maturity is 37.8 years.

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Off-balance sheet arrangements

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.

Structured Investment Vehicles (SIVs)

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

- £317m of senior liquidity facilities, of which £19m was drawn and included in loans and advances as at 31st December 2007. The Group is one of between two and eight independent liquidity providers on each transaction.

- Derivative exposures included on the balance sheet at their net fair value of £264m.

- Bonds issued by the SIVs included within trading portfolio assets at their fair value of £21m.

- £2.6bn repo funding facilities. £1.3bn has been utilised and included within loans and advances to customers in the balance sheet.

Other than the repo facilities, which when drawn are more than 100% collateralised by assets held by the Group with the collateral being valued daily, the items above are included in the credit market positions discussed on page 53.

SIV-Lites

The Group structured and helped to underwrite three SIV-Lite transactions. The Group is not involved in their ongoing management.

The Group provided £0.55bn in liquidity facilities as partial support to the £2.6bn of CP programmes on these transactions. These facilities have now been fully drawn or are terminated, such that no further drawings are possible. One of the three vehicles has been restructured into a cash CDO. As part of this restructuring, the Group acquired the £800m senior note in the CDO which is held at fair value within trading portfolio assets. The credit risk on this note has been transferred to a third party investment bank. For the remaining facilities, the amount drawn totalled £152m and is included on the balance sheet within loans and advances to customers and included in the credit market positions discussed on page 53.

Commercial Paper and Medium-term Note Conduits

The Group provided £19bn 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.

The Group provided backstop facilities to support the paper issued by six third party conduits. These facilities totalled £1bn, with underlying collateral comprising auto loans (81%), bank-guaranteed residential mortgages (11%), bank-guaranteed commercial and project finance loans (5%) and UK consumer finance receivables (3%). Drawings on these facilities were £46m as at 31st December 2007 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 £2.9bn, to SPEs holding prime UK and Australian owner-occupied Residential Mortgage Back Securities (RMBS) assets. As at 31st December 2007, the Group had acquired notes of £90m under these backstop facilities (included as available for sale assets in the balance sheet) and further acquisitions are expected through 2008 as other notes are remarketed. The notes generally rank pari passu with the other term AAA+ rated notes from the same issuer. The facilities have been designated at fair value and are reflected in the balance sheet at their current fair value.

The Group s own CP conduits provided facilities of £1.3bn to third party conduits containing prime UK buy-to-let RMBS. As at 31st December 2007, £290m of this facility had been drawn. The undrawn facilities are included within the commitments disclosed in Note 34 to the accounts, while the drawn elements are included within loans and advances to customers.

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 derecognition 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 2007, Group operating expenses included charges of £80m (2006: £nil) related to selective support of liquidity products managed by Barclays Global Investors and not consolidated by the Group. The Group has continued to provide further selective support to liquidity products subsequent to 31st December 2007.

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Financial review

Barclays Capital credit market positions

Barclays Capital credit market positions

Barclays Capital credit market exposures resulted in net losses of £1,635m in 2007, due to dislocations in the credit markets. The net losses primarily related to ABS CDO super senior exposures, with additional losses from other credit market exposures partially offset by gains from the general widening of credit spreads on issued notes held at fair value.

Credit market exposures in this note are stated relative to comparatives as at 30th June 2007, being the reporting date immediately prior to the credit market dislocations.

	As at	
	31st December 2007	30th June 2007
	£m	£m
ABS CDO Super Senior		
High Grade	**4,869**	6,151
Mezzanine	**1,149**	1,629
Exposure before hedging	**6,018**	7,780
Hedges	**(1,347)**	(348)
Net ABS CDO Super Senior	**4,671**	7,432
Other US sub-prime		
Whole loans	**3,205**	2,900
Other direct and indirect exposures	**1,832**	3,146
Other US sub-prime	**5,037**	6,046
Alt-A	**4,916**	3,760
Monoline insurers	**1,335**	140
Commercial mortgages	**12,399**	8,282
SIV-lite liquidity facilities	**152**	692
Structured investment vehicles	**590**	925

ABS CDO Super Senior exposure

ABS CDO Super Senior net exposure was £4,671m (30th June 2007: £7,432m). Exposures are stated net of writedowns and charges of £1,412m (30th June 2007: £56m) and hedges of £1,347m (30th June 2007: £348m).

The collateral for the ABS CDO Super Senior exposures primarily comprised Residential Mortgage Backed Securities. 79% of the RMBS sub-prime collateral comprised 2005 or earlier vintage mortgages. On ABS CDO super senior exposures, the combination of subordination, hedging and writedowns provide protection against loss levels to 72% on US sub-prime collateral as at 31st December 2007. None of the above hedges of ABS CDO Super Senior exposures as at 31st December 2007 were held with monoline insurer counterparties.

Other credit market exposures

Barclays Capital held other exposures impacted by the turbulence in credit markets, including: whole loans and other direct and indirect exposures to US sub-prime and Alt-A borrowers; exposures to monoline

insurers; and commercial mortgage backed securities. The net losses in 2007 from these exposures were £823m.

Other US sub-prime whole loan and net trading book exposure was £5,037m (30th June 2007: £6,046m). Whole loans included £2,843m (30th June 2007: £1,886m) acquired since the acquisition of EquiFirst in March 2007, all of which were subject to Barclays underwriting criteria. As at 31st December 2007 the average loan to value of these EquiFirst loans was 80% with less than 3% at above 95% loan to value. 99% of the EquiFirst inventory was first lien.

Net exposure to the Alt-A market was £4,916m (30th June 2007: £3,760m), through a combination of securities held on the balance sheet including those held in consolidated conduits and residuals. Alt-A exposure is generally to borrowers of a higher credit quality than sub-prime borrowers. As at 31st December 2007, 99% of the Alt-A whole loan exposure was performing, and the average loan to value ratio was 81%. 96% of the Alt-A securities held were rated AAA or AA.

Barclays Capital held assets with insurance protection or other credit enhancement from monoline insurers. The value of exposure to monoline insurers under these contracts was £1,335m (30th June 2007: £140m). There were no claims due under these contracts as none of the underlying assets were in default.

Exposures in our commercial mortgage backed securities business comprised commercial real estate loans of £11,103m (30th June 2007: £7,653m) and commercial mortgage backed securities of £1,296m (30th June 2007: £629m). The loan exposures were 54% US and 43% European. The US exposures had an average loan to value of 65% and the European exposures had an average loan to value of 71%. 87% of the commercial mortgage backed securities held as at 31st December 2007 were AAA or AA rated.

Loans and advances to customers included £152m (30th June 2007: £692m) of drawn liquidity facilities in respect of SIV-lites. Total exposure to other structured investment vehicles, including derivatives, undrawn commercial paper backstop facilities and bonds held in trading portfolio assets was £590m (30th June 2007: £925m).

Leveraged Finance

At 31st December 2007, drawn leveraged finance positions were £7,368m (30th June 2007: £7,317m). The positions were stated net of fees of £130m and impairment of £58m driven by widening of corporate credit spreads.

Own Credit

At 31st December 2007, Barclays Capital had issued notes held at fair value of £57,162m (30th June 2007: £44,622m). The general widening of credit spreads affected the carrying value of these notes and as a result revaluation gains of £658m were recognised in trading income.

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Financial review

Average balance sheet

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

	2007			2006			2005		
	Average balance(a) £m	Interest £m	Average rate %	Average balance(a) £m	Interest £m	Average rate %	Average balance(a) £m	Interest £m	Average rate %
Assets									
Loans and advances to banks [b]:									
in offices in the United Kingdom	29.431	1,074	3.6	18,401	647	3.5	14,798	454	3.1
in offices outside the United Kingdom	12,262	779	6.4	12,278	488	4.0	11,063	403	3.6
Loans and advances to customers [b]:									
in offices in the United Kingdom	205,707	13,027	6.3	184,392	11,247	6.1	172,398	10,229	5.9
in offices outside the United Kingdom	88,212	6,733	7.6	77,615	4,931	6.4	50,699	2,975	5.9
Lease receivables:									
in offices in the United Kingdom	4,822	283	5.9	5,266	300	5.7	6,521	348	5.3
in offices outside the United Kingdom	5,861	691	11.8	6,162	595	9.7	1,706	117	6.9
Financial investments:									
in offices in the United Kingdom	37,803	2,039	5.4	41,125	1,936	4.7	43,133	1,755	4.1
in offices outside the United Kingdom	14,750	452	3.1	14,191	830	5.8	10,349	467	4.5
Reverse repurchase agreements and cash collateral on securities borrowed									
in offices in the United Kingdom	211,709	9,644	4.6	166,713	6,136	3.7	156,292	4,617	3.0
in offices outside the United Kingdom	109,012	5,454	5.0	100,416	5,040	5.0	92,407	2,724	2.9
Trading portfolio assets:									
in offices in the United Kingdom	120,691	5,926	4.9	106,148	4,166	3.9	81,607	2,710	3.3
in offices outside the United Kingdom	57,535	3,489	6.1	61,370	2,608	4.2	57,452	2,116	3.7
Total average interest earning assets	897,795	49,591	5.5	794,077	38,924	4.9	698,425	28,915	4.1
Impairment allowances/provisions	(4,435)			(3,565)			(3,105)		
Non-interest earning assets	422,834			310,949			278,328		
Total average assets and interest income	1,316,194	49,591	3.8	1,101,461	38,924	3.5	973,648	28,915	3.0
Percentage of total average interest earning assets in offices outside the United Kingdom	32.0%			34.3%			32.0%		
Total average interest earning assets related to:									
Interest income		49,591	5.5		38,924	4.9		28,915	4.1
Interest expense		(37,892)	4.2		(30,385)	3.8		(20,965)	3.0
		11,699	1.3		8,539	1.1		7,950	1.0

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 and net interest income (year ended 31st December)

	2007			2006			2005		
	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	**63,902**	**2,511**	**3.9**	62,236	2,464	4.0	54,801	1,665	3.0
in offices outside the United Kingdom	**27,596**	**1,225**	**4.4**	23,438	1,137	4.9	21,921	705	3.2
Customer accounts: demand deposits:									
in offices in the United Kingdom	**29,110**	**858**	**2.9**	25,397	680	2.7	22,593	510	2.3
in offices outside the United Kingdom	**13,799**	**404**	**2.9**	10,351	254	2.5	6,196	88	1.4
Customer accounts: savings deposits:									
in offices in the United Kingdom	**55,064**	**2,048**	**3.7**	57,734	1,691	2.9	52,569	1,570	3.0
in offices outside the United Kingdom	**4,848**	**128**	**2.6**	3,124	74	2.4	1,904	39	2.0
Customer accounts: other time deposits retail:									
in offices in the United Kingdom	**30,578**	**1,601**	**5.2**	34,865	1,548	4.4	33,932	1,470	4.3
in offices outside the United Kingdom	**12,425**	**724**	**5.8**	8,946	482	5.4	6,346	260	4.1
Customer accounts: other time deposits wholesale:									
in offices in the United Kingdom	**52,147**	**2,482**	**4.8**	45,930	1,794	3.9	41,745	1,191	2.9
in offices outside the United Kingdom	**24,298**	**1,661**	**6.8**	23,442	1,191	5.1	12,545	590	4.7
Debt securities in issue:									
in offices in the United Kingdom	**41,552**	**2,053**	**4.9**	47,216	1,850	3.9	46,583	1,631	3.5
in offices outside the United Kingdom	**94,271**	**5,055**	**5.4**	74,125	3,686	5.0	52,696	1,695	3.2
Dated and undated loan capital and other subordinated liabilities principally:									
in offices in the United Kingdom	**12,972**	**763**	**5.9**	13,686	777	5.7	11,286	605	5.4
Repurchase agreements and cash collateral on securities lent:									
in offices in the United Kingdom	**169,272**	**7,616**	**4.5**	141,862	5,080	3.6	130,767	3,634	2.8
in offices outside the United Kingdom	**118,050**	**5,051**	**4.3**	86,693	4,311	5.0	80,391	2,379	3.0
Trading portfolio liabilities:									
in offices in the United Kingdom	**47,971**	**2,277**	**4.7**	49,892	2,014	4.0	44,349	1,737	3.9
in offices outside the United Kingdom	**29,838**	**1,435**	**4.8**	39,064	1,352	3.5	36,538	1,196	3.3
Total average interest bearing liabilities	**827,693**	**37,892**	**4.6**	748,001	30,385	4.1	657,162	20,965	3.2
Interest free customer deposits:									
in offices in the United Kingdom	**34,109**			27,549			25,095		
in offices outside the United Kingdom	**3,092**			2,228			2,053		
Other non-interest bearing liabilities	**421,473**			297,816			267,531		
Minority and other interests and shareholders equity	**29,827**			25,867			21,807		
Total average liabilities, shareholders equity and interest expense	**1,316,194**	**37,892**	**2.9**	1,101,461	30,385	2.8	973,648	20,965	2.2
Percentage of total average interest bearing non-capital liabilities in offices outside the United Kingdom	**39.4%**			36.1%			33.3%		

Note

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

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Financial review

Average balance sheet

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.

	2007/2006 Change due to increase/(decrease) in:			2006/2005 Change due to increase/(decrease) in:			2005/2004 [a] Change due 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									
Treasury bills and other eligible bills:									
in offices in the UK	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(68)	(68)	n/a
in offices outside the UK	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(63)	(63)	n/a
	n/a	**n/a**	**n/a**	n/a	n/a	n/a	(131)	(131)	n/a
Loans and advances to banks:									
in offices in the UK	**427**	**402**	**25**	193	121	72	(237)	(115)	(122)
in offices outside the UK	**291**	**(1)**	**292**	85	46	39	132	45	87
	718	**401**	**317**	278	167	111	(105)	(70)	(35)
Loans and advances to customers:									
in offices in the UK	**1,780**	**1,337**	**443**	1,018	726	292	1,419	1,681	(262)
in offices outside the UK	**1,802**	**728**	**1,074**	1,956	1,695	261	1,705	787	918
	3,582	**2,065**	**1,517**	2,974	2,421	553	3,124	2,468	656
Lease receivables:									
in offices in the UK	**(17)**	**(26)**	**9**	(48)	(70)	22	128	78	50
in offices outside the UK	**96**	**(30)**	**126**	478	413	65	96	91	5
	79	**(56)**	**135**	430	343	87	224	169	55
Debt securities:									
in offices in the UK	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(2,129)	(2,129)	n/a
in offices outside the UK	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(338)	(338)	n/a
	n/a	**n/a**	**n/a**	n/a	n/a	n/a	(2,467)	(2,467)	n/a
Financial investments:									
in offices in the UK	**103**	**(165)**	**268**	181	(85)	266	1,755	1,755	n/a
in offices outside the UK	**(378)**	**32**	**(410)**	363	202	161	467	467	n/a
	(275)	**(133)**	**(142)**	544	117	427	2,222	2,222	n/a

External trading assets:									
in offices in the UK and	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(4,971)	(4,971)	n/a
outside the UK	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(2,224)	(2,224)	n/a
	n/a	**n/a**	**n/a**	n/a	n/a	n/a	(7,195)	(7,195)	n/a
Reverse repurchase agreements and cash collateral on securities borrowed:									
in offices in the UK	**3,508**	**1,865**	**1,643**	1,519	324	1,195	4,617	4,617	n/a
in offices outside the UK	**414**	**430**	**(16)**	2,316	254	2,062	2,724	2,724	n/a
	3,922	**2,295**	**1,627**	3,835	578	3,257	7,341	7,341	n/a
Trading portfolio assets:									
in offices in the UK	**1,760**	**621**	**1,139**	1,456	907	549	2,710	2,710	n/a
in offices outside the UK	**881**	**(172)**	**1,053**	492	151	341	2,116	2,116	n/a
	2,641	**449**	**2,192**	1,948	1,058	890	4,826	4,826	n/a
Total interest receivable:									
in offices in the UK	**7,561**	**4,034**	**3,527**	4,319	1,923	2,396	3,224	3,558	(334)
in offices outside the UK	**3,106**	**987**	**2,119**	5,690	2,761	2,929	4,615	3,605	1,010
	10,667	**5,021**	**5,646**	10,009	4,684	5,325	7,839	7,163	676

Note

a 2004 figures do not reflect the applications of IAS 32 and IAS 39 and IFRS 4 which became effective from 1st January 2005.

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Changes in net interest income volume and rate analysis

	2007/2006 Change due to increase/(decrease) in:			2006/2005 Change due to increase/(decrease) in:			2005/2004 [a] Change due 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 payable									
Deposits by banks:									
in offices in the UK	47	66	(19)	799	247	552	440	231	209
in offices outside the UK	88	190	(102)	432	52	380	395	121	274
	135	256	(121)	1,231	299	932	835	352	483
Customer accounts demand deposits:									
in offices in the UK	178	105	73	170	68	102	200	28	172
in offices outside the UK	150	95	55	166	80	86	57	36	21
	328	200	128	336	148	188	257	64	193
Customer accounts savings deposits:									
in offices in the UK	357	(81)	438	121	152	(31)	245	145	100
in offices outside the UK	54	45	9	35	28	7	18	16	2
	411	(36)	447	156	180	(24)	263	161	102
Customer accounts other time deposits retail:									
in offices in the UK	53	(204)	257	78	41	37	164	(23)	187
in offices outside the UK	242	200	42	222	125	97	142	59	83
	295	(4)	299	300	166	134	306	36	270
Customer accounts other time deposits wholesale:									
in offices in the UK	688	263	425	603	129	474	(653)	(479)	(174)
in offices outside the UK	470	45	425	601	550	51	248	(16)	264
	1,158	308	850	1,204	679	525	(405)	(495)	90
Debt securities in issue:									
in offices in the UK	203	(240)	443	219	22	197	398	507	(109)
in offices outside the UK	1,369	1,063	306	1,991	850	1,141	1,359	323	1,036
	1,572	823	749	2,210	872	1,338	1,757	830	927
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	(14)	(41)	27	172	135	37	(87)	(78)	(9)
External trading liabilities:									
in offices in the UK	n/a	n/a	n/a	n/a	n/a	n/a	(5,611)	(5,611)	n/a
outside the UK	n/a	n/a	n/a	n/a	n/a	n/a	(1,805)	(1,805)	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	(7,416)	(7,416)	n/a
Repurchase agreements and cash collateral on securities lent:									
in offices in the UK	2,536	1,090	1,446	1,446	329	1,117	3,634	3,634	n/a
in offices outside the UK	740	1,402	(662)	1,932	200	1,732	2,379	2,379	n/a
	3,276	2,492	784	3,378	529	2,849	6,013	6,013	n/a
Trading portfolio liabilities:									
in offices in the UK	263	(80)	343	277	222	55	1,737	1,737	n/a
in offices outside the UK	83	(366)	449	156	85	71	1,196	1,196	n/a
	346	(446)	792	433	307	126	2,933	2,933	n/a
Internal funding of trading businesses	n/a	n/a	n/a	n/a	n/a	n/a	2,045	2,045	n/a
Total interest payable:									
in offices in the UK	4,311	878	3,433	3,885	1,345	2,540	2,512	2,136	376
in offices outside the UK	3,196	2,674	522	5,535	1,970	3,565	3,989	2,309	1,680
	7,507	3,552	3,955	9,420	3,315	6,105	6,501	4,445	2,056
Movement in net interest income									
Increase/(decrease) in interest receivable	10,667	5,021	5,646	10,009	4,684	5,325	7,839	7,163	676
(Increase)/decrease in interest payable	(7,507)	(3,552)	(3,955)	(9,420)	(3,315)	(6,105)	(6,501)	(4,445)	(2,056)
	3,160	1,469	1,691	589	1,369	(780)	1,338	2,718	(1,380)

Note

a 2004 figures do not reflect the applications of IAS 32 and IAS 39 and IFRS 4 which became effective from 1st January 2005.

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Corporate sustainability

Corporate sustainability

For Barclays, there are two separate but mutually dependent aspects to sustainability. One is our duty as a bank to provide sound and enduring returns for our shareholders, and the best possible services for our customers. The other is our responsibility to conduct our global business ethically, and with full regard to wider social and environmental considerations. Our ambition is to develop both of these complementary strands as we move forward.

Barclays as a sustainable bank

Banks are central to every society; they provide the funding that facilitates business and entrepreneurship, support a sound financial system, and help to create jobs and wealth. As one of the world s leading banks, with nearly 135,000 employees and operations in over 50 countries across the world, Barclays plays a significant role, whether it is working with governments on major infrastructure projects or bringing mainstream banking to customers in emerging markets.

In all of this, the customer is absolutely central. If we are to make sustainable banking successful, and successful banking sustainable, we must put our customers at the heart of everything we do, and build our services around them. We must earn and keep their trust by ensuring that the products we sell are understandable and appropriate.

This may seem like a statement of the obvious, but the banking sector in general has not always had a reputation for doing this. We want to change that. This aspiration covers every aspect of our business and every stage in a customer s relationship with us, from the purchase of a Barclays product for the first time, to the way we assess applications for loans, to the more general aspects of customer service such as complaints-handling, confidentiality, and security.

Focusing more on the customer is also an integral part of what we call inclusive banking . This is partly about appealing to the broadest possible range of people as part of our strategic move into mass-market services in our emerging markets businesses, and partly about understanding the exact nature of our local customer base, and adapting our business model and product range accordingly.

A good example is our approach to basic banking accounts. In the UK we now have over 660,000 customers who have our basic Cash Card Account, and we have been working closely with consumer groups and third parties such as housing associations to ensure that these accounts are easily accessible and the product features and communications are tailored to meet their needs. In Africa the potential for growth in this area is enormous: over 100 million of the continent s people have yet to be brought into mainstream banking, and could in time buy a whole range of other financial services. Absa has been a pioneer of basic banking in South Africa, and has attracted over 4 million customers to these accounts. The same thinking is now being applied in other African markets and India, with new basic banking products being developed. We are also distributing these products through new and innovative formats such as express branches and direct sales agents, alongside our traditional branches.

This is another lesson we have learnt from our South African operations. In Ghana our microbanking programme is now working with over 500 Susu collectors and reaching over 280,000 market traders across the country. The programme is being extended to other intermediaries such as credit unions, trade associations, microfinance institutions and church groups.

Responsible lending

We have reported on this issue in our recent Corporate Responsibility reviews, setting out our approach to what remains a high-profile and intractable issue, especially in the UK. In the last year we have continued to enforce strict criteria on new credit card applications, using a scoring system that takes over 400 variables into account when assessing an applicant s likely ability to manage their credit. Around 50% of applications for credit cards are declined as a result. We have also extended our data-sharing collaboration with the UK credit reference agencies: pooling information about cash advances and minimum payments is proving to be an effective way of flagging up those customers who are in danger of incurring serious debt problems. We have a new unit that can step in at this stage and offer support and guidance to get their finances back on track.

We are also testing a new product, Barclaycard Freedom, which combines a credit card and the features of a structured loan, making it easier for people to manage their borrowing and keep their interest payments down.

Customer service

We have a strategic priority to be the best bank in the UK. In the last twelve months we have started to roll all our various customer initiatives into what we are calling Real Retail . We are sharing best practice more actively, and both managers and employees are getting new powers to make decisions, and tailor their product range, based on local customer needs.

Real Retail also includes a new programme to telephone customers to ask about the quality of our service and products they have purchased. Over 20,000 calls have been made so far, and the feedback is being channelled back to our product development teams.

Risk management

The incorporation of environmental and social risks into mainstream commercial credit assessments is an area where Barclays has demonstrated genuine leadership.

We have been a member of the Equator Principles since their inception, and currently chair the Steering Committee for the group of Equator banks. We continue to assess our environmental and social impact beyond the project finance remit of these principles (see table on page 59) and are working to include climate change and human rights risks. We now have ten briefing notes for all lending covering a wide range of social and environmental risks. These notes set out an overview of the risks facing different sectors, and the ways they can be mitigated, as well as the legislative and regulatory environment applicable to that industry. A good example of this process in practice in 2007 is Absa s involvement with the Bujagali Hydropower project in Uganda. A rigorous social and environmental assessment was carried out, and the results were incorporated into the final plans.

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Barclays as a responsible global citizen

Twenty years ago the idea of corporate citizenship described a company s community activities, which rarely extended beyond philanthropic donations. Public understanding of the responsibilities of business has evolved considerably since then. For us, being a responsible global citizen does not just cover our award-winning community investment programme, but also includes how we behave as an employer, and how we manage Barclays wider social and environmental impacts.

Climate change has become the single biggest challenge the world faces at the beginning of the 21st century, and in response we are focusing increasingly on our work on the environment, which includes both our direct and indirect impacts.

The environment

As a major financial services organisation we want to take a lead in helping our clients thrive in a lower-carbon future, and use our position to press for appropriate policies and regulatory frameworks to deal with climate change. We will be 100% carbon neutral globally by next year. We remain committed to increasing our energy efficiency, and reducing our carbon footprint on an ongoing basis, as well as helping our supply chain reduce its emissions.

We also believe we can make a positive impact though the products and services we offer, and the lending decisions we make. In 2007, we invested further in our emissions trading capability, and moved into the consumer market with new lower-carbon products and services.

An example is Barclaycard Breathe, a new card that gives consumers incentives when they buy green products, and donates half its profits to environmental projects. In the wholesale market we have Barclays Capital s commitment to the EU emissions trading market, where it brings its full range of commodity trading and risk management expertise to bear to help clients manage their carbon risk. Since 2005 we have traded over 600 million tonnes of carbon credits, with a notional value of over $14 billion.

Project Finance Deals whole Barclays Group

Category	A Higher Risk	B Medium Risk	C Lower Risk	Total 2007	Total 2006
Number of project finance deals	7	18	29	54	36
Deals completed or pending	4	12	29	45	30
of which, number where sustainability related changes were made.	4	12	29	45	30
Deals considered, but not participated in	3	6	0	9	6
Projects referred from EU	5	9	24	38	25
Projects referred from Africa	2	1	4	7	5
Projects referred from Asia Pacific	0	4	1	5	3
Projects referred from North America	0	4	0	4	3

Our supply chain

Since 2006 we have required all new and high-risk suppliers to provide us detailed information about their social, environmental and ethical performance. In the last year Absa adapted it for the special conditions of the South African market.

Measuring the emissions generated from a company s supply chain is also becoming increasingly important, and we are engaging more with our own suppliers on this. This included a special forum for nine key suppliers, which has been followed up with one-to-one discussions to ascertain the proportion of each firm s emissions that are attributable to us. We have identified a number of ways to help suppliers address their emissions, and now have a working group in place to take these ideas forward in 2008.

Human rights

We have represented the banking sector on the Business Leaders Initiative on Human Rights since its launch in 2003 and, since October 2006, have co-chaired the United Nations Environment Programme Finance Initiative (UNEPFI) human rights work stream. During 2007 we worked as part of a team of 12 financial institutions to develop an online tool for UNEPFI that provides guidance on human rights issues associated with corporate lending. It is designed to help identify potential risks and how they may be reduced or managed. The guidance covers specific issues relevant to different sectors, ranging from employment terms and conditions, to health and safety, to child labour, to relocation of communities, among many others.

Project finance deals by sector	Project finance [a] deals	Non project finance deals referred to E and S Risk Team
Agriculture and Fisheries	0	4
Forestry and Logging	0	16
Manufacturing	3	30
Chemicals, pharmaceuticals manufacturing and bulk storage	1	6
Mining and Metals	6	91
Power generation [b]	16	118
Oil and gas	4	41
Utilities and Waste Management	5	7
Infrastructure (including dams, pipelines)	9	26
Service Industry	10	7
Totals	**54**	**346**

Note

a Project finance as defined by Basel II www.bis.org/publ/bcbs118.pdf.

b Of which non-fossil fuel deals contributed 9 and 89 to project finance deals and non-project finance deals referred to E and S Team respectively.

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Corporate sustainability

Barclays an international picture

	2007	2006
FTE by world region		
UK	**61,900**	62,400
Africa & Middle East	**51,748**	44,326
Continental Europe	**9,750**	8,100
Americas	**6,413**	4,905
Asia Pacific	**5,089**	2,869
Total	**134,900**	122,600
Global employment statistics		
FTE	**134,900**	122,600
Total employee headcount	**141,885**	133,529
Percentage of female employees	**56.3%**	60.6%
Percentage of female senior executives	**13.7%**	12.2%
Percentage of female senior managers	**20.6%**	20.8%
Percentage working part time	**12.4%**	13.6%
Turnover rate	**18.3%**	16.9%
Resignation rate	**12.3%**	10.9%
Sickness absence rate	**3.0%**	3.6%

Barclays UK employees

	2007 [a]	2006 [b]
UK employment statistics		
Total employee headcount	**61,900**	62,400
Average length of service (years)	**9.7**	9.8
Percentage working part time	**16.8%**	21.8%
Sickness absence rate	**3.0%**	4.0%
Turnover rate	**16.6%**	19.0%
Resignation rate	**11.1%**	12.0%
Women in Barclays		
Percentage of all employees	**58.0%**	61.0%
Percentage of management grades	**28.4%**	33.0%
Percentage of senior executives	**13.0%**	12.9%
Ethnic minorities in Barclays		
Percentage of all employees	**12.3%**	12.7%
Percentage of management grades	**10.0%**	8.1%
Percentage of senior executives	**6.6%**	6.1%
Disabled employees in Barclays		
Percentage of all employees	**3.4%**	5.0%
Age profile		
Employees aged under 25	**16.5%**	17.4%
Employees aged 25-29	**17.0%**	15.9%
Employees aged 30-49	**54.2%**	56.0%
Employees aged 50+	**10.3%**	10.7%
Pensions		
Barclays Bank UK Retirement Fund active members	**53,473**	55,558
Current pensioners	**48,607**	43,754

Notes

a 2007 UK data includes 1,000 BGI employees

b 2006 UK data excludes 800 BGI employees

Barclays as an employer

One of our guiding principles is to develop the best people, and in such an intensely competitive industry we want to find, develop and retain the best talent. We are committed to diversity as a way of helping to ensure we are able to attract the best people. We have a wide range of development and leadership programmes for employees, and a policy that ensures that they are all treated with respect, regardless of age, race, sexuality, gender or disability.

We use our employee opinion surveys to understand and engage our employees. We continue to score well but we are working to improve our scores further.

As we grow internationally our workforce becomes ever more diverse, reflecting the worldwide markets in which we operate. The percentage of UK ethnic minority employees has increased significantly from 7.2% in 2001, to 12.3% in 2007. As we grow we are determined to build the local talent base in the markets in which we operate, we see this as a crucial success factor for us in emerging markets. In the UK we also continued to invest in the disability mentoring and reasonable adjustments schemes in 2007, and have again been ranked in the top 20 of Stonewall s list of the best employers for lesbian, gay and bisexual people.

These are clear successes; but we have much more work to do on our gender balance, especially at senior level: 20.6% of our senior managers are women. The drive to improve this comes from the very top of the bank.

Barclays in the community

Barclays has always been a proud and committed investor in its communities. In 2007 we invested £52.4 million in communities around the world and 44,000 Barclays employees in 26 countries were involved in our fundraising and volunteering initiatives. Our flagship programme, Banking on Brighter Futures, enabled us to use our skills and expertise, as well as our money, to maximum effect helping people improve their economic prospects, especially those in poverty, disadvantage, and debt. Projects ranged from supporting elderly people in the UK who are in financial difficulty through to helping Ugandan women affected by HIV/AIDS to set up their own businesses. This is not just about good works: the more we help individuals and communities improve their economic circumstances and financial literacy, the better the environment in which we operate.

We are investing $150 million over the next five years in the Banking on Brighter Futures programme. 1,500 projects will be supported around the world, and employees will be encouraged to volunteer 150,000 hours of their time on projects focusing on financial education, entrepreneurship, employment and financial inclusion.

Governance

Corporate responsibility is firmly established as one of the Barclays Principal Risks, which means that it is managed within a robust framework of internal control, governance, and risk management processes.

Responsibility for Barclays Corporate Sustainability Strategy rests with the Group Executive Committee, with oversight by the Board. The Group Chief Executive has primary responsibility for embedding corporate sustainability throughout Barclays, supported by the Group Executive Committee. This includes ensuring there are effective processes for identifying and monitoring all the business risks or commercial opportunities that have a significant social, environmental or ethical dimension.

The Brand and Reputation Committee is a sub-committee of Group Executive Committee, and is chaired by Sir Nigel Rudd, Deputy Chairman and a Non-Executive Director on the Board. This Committee s role is to identify and manage issues that could have a significant impact on Barclays reputation. It met six times during the year and dealt with issues ranging from Barclays presence in Zimbabwe to new areas of commodities business and the fee structure for Barclaycard.

The Community Partnerships Committee, chaired by Gary Hoffman, sets the policy and provides governance for our global community investment programmes, and the Environmental Steering Group gives direction and governance to our environmental and climate change strategies. The Treating Customers Fairly (TCF) Forum, chaired by our Consumer champion, Catharine French, monitors compliance across all retail and wholesale business units, UK and non-UK, to embed TCF principles in our relationships with customers. Taking this wider approach to TCF goes significantly beyond our regulatory requirements.

Risk management

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Risk management

List of Credit, Market and Operational Risk tables and charts included within the 2007 Annual Report and Accounts

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Risk management

Risk factors disclosure

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. For further information related to such matters, please refer to page 53 (Barclays Capital credit market positions), pages 65-66 (2007 risk developments), pages 80 to 88 (credit risk management and market risk management), pages 91-95 (liquidity risk management and operational risk management), page 201 (Note 35 legal proceedings) and page 202 (Note 36 competition and regulatory matters). 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 a worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the US or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the activity level of customers. For example:

- An economic downturn or significantly higher interest rates could adversely affect the credit quality of Barclays on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of Barclays customers would be unable to meet their obligations.

- A market downturn or worsening of the economy could cause the Group to incur mark to market losses in its trading portfolios.

- A market downturn could reduce the fees Barclays earns for managing assets. For example, a higher level of domestic or foreign interest rates or a downturn in trading markets could affect the flows of assets under management.

- A market downturn would be likely to lead to a decline in the volume of customer transactions that Barclays executes and, therefore, a decline in the income it receives from fees and commissions and interest.

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. 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. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending.

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 asset, 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 for example, a bank in a foreign exchange transaction but fail to receive the corresponding settlement in return.

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. The main market risk arises from trading activities. The Group is also exposed to interest rate risk in the banking book and market risk in the pension fund.

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 Barclays 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.

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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 US 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 strong credit rating. In addition to capital resources, the Group s rating is supported by a diverse portfolio of activities, an increasingly international presence, consistent profit performance, prudent risk management and a focus on value creation. A weaker credit rating would increase the Group s cost of funds.

- Support its growth and strategic options.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend. The risk that it will be unable to do so is inherent in all banking operations and can be impacted 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.

Business risk

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures. Major 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.

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.

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. 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.

Tax risk

The Group is subject to the tax laws in all countries in which it operates. A number of double taxation agreements entered between countries also impact on the taxation of the Group. The Group is also subject to European Union tax law. 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;
- 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;
- 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.

Effect of governmental policy and regulation

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 UK, the European Union, the US, South Africa and elsewhere.

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 (page 70) and rules designed to promote financial stability and increase depositor protection;

- changes and rules in competition and pricing environments;

- further developments in the financial reporting environment;

- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and

- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for the Group s products and services.

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 services 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.

Impact of strategic decisions taken by the Group

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 do not deliver as anticipated, the Group s earnings could grow more slowly or decline.

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. 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.

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Risk management

Introduction

This risk section outlines Barclays approach to risk management, explaining our objectives as well as the high level policies, processes, measurement techniques and controls that are used. This also presents our summary information and disclosure on our portfolios and positions. Consequent to the adoption of IFRS 7, some of our risk disclosure is moved from this section to the financial statements section of this report, as described in our list of tables on page 62.

2007 Developments

Wholesale credit risk

The results of severe disruption in the US sub-prime mortgage market were felt across many wholesale credit markets in the second half of 2007, and were reflected in wider credit spreads, higher volatility, tight liquidity in interbank and commercial paper markets, more constrained debt issuance and lower investor risk appetite. Although impairment and other credit provisions in Barclays Capital rose as a consequence of these difficult sub-prime market conditions, our risks in these portfolios were identified in the first half and management actions were taken to reduce limits and positions. Further reductions and increased hedging through the rest of the year continued to bring net positions down and limited the financial effect of the significant decline in market conditions. Our ABS CDO Super Senior positions were reduced during the year and our remaining exposure reflected netting against writedowns, hedges, and subordination. At the end of the year, market conditions remained difficult with reduced liquidity in cash and securitised products, and reflected stress at some counterparties such as the monoline insurers.

The international markets for Leveraged Finance were also disrupted in 2007. The level of underwritten positions was steady during the second half, with some small turnover in the portfolio. The vast majority of positions held were senior tranches. Liquidity conditions at year end remained constrained.

The Group s wholesale credit risk profile in 2007 benefited from the diversification available from the UK and international portfolios, which grew by 14% and 41% respectively. The corporate credit risk profile remained steady, with corporate credit ratings and watch list balances broadly stable.

At Barclays Commercial Bank there was good growth in loans and advances. The risk profile of the Larger Business portfolio remained stable as early warning list balances, default rates and loan loss rates were steady. There was no increase to exposure levels to leveraged finance during 2007 and limits were reduced.

Wholesale credit portfolio performance was steady in South Africa, particularly for Absa s most significant wholesale portfolios agriculture, property and sovereign lending which were relatively unaffected during 2007 by interest rate rises compared with consumer-facing sectors and retail portfolios. Relatively good performance in these sectors in 2007 was reflected in a reduction in Absa s wholesale impairment charge. After many years of positive economic conditions in South Africa, the wholsesale portfolios will be under more stress in current market conditions.

Loan loss rates across the Western Europe and Emerging Markets wholesale businesses were stable in 2007. The Group continued to invest in risk management infrastructure to support these businesses growth initiatives in Dubai, India, Egypt and Italy.

Going into 2008, the credit environment reflects concern about weakening economic conditions in our major markets. Credit spreads and other indicators signal that the credit cycle has changed after a long period of stability. We expect some deterioration in credit metrics as default probabilities move toward their medium-term averages. This environment has led to a more cautious approach to credit assessment, pricing and ongoing control in the financial industry, which we believe will continue through the year.

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Retail credit risk

A continued improvement in credit quality in the UK unsecured portfolios was a principal feature of the Group s retail credit risk profile during 2007. Barclaycard continued the underwriting revisions begun in 2006 in UK credit cards, and successfully reduced impairment in the main Barclays branded cards portfolio. Flows into delinquency and arrears balances fell, as did general charge-offs, which were helped by a fall in charge-offs due to bankruptcy. New customer quality increased again in 2007, reflected in a sustained improvement in average approval scores and a fall in early cycle delinquency rates.

The UK unsecured loans portfolio, which is now managed within UK Retail Banking, saw reduced early and late cycle delinquency resulting from revised underwriting criteria. Improved collections processes helped to reduce impairment in Local Business, while in UK Home Finance, delinquency and possession rates remained at the lows recorded since 2004, and impairment charges were negligible. Barclays delinquency and possession rates remain below industry averages, reflecting the high credit quality of the portfolio.

Lending criteria in Absa s retail portfolios were tightened in response to a more difficult credit environment, signalled by a rise in arrears rates. The change in conditions was primarily driven by a prolonged series of interest rate rises and the implementation of new consumer lending legislation in June 2007.

We increased our investment in credit risk infrastructure in India and Italy to support the launch or expansion of retail banking operations in those countries during 2007. Barclays has also established a credit risk modelling centre in Madrid to support our strategic growth objectives in the Western Europe business.

The US card business continued to grow, and the underwriting and account management criteria were adjusted as the US retail environment weakened during the year.

Looking ahead this year, we expect the retail credit environment to be more challenging in Absa and to some degree in the US portfolio. The UK portfolios performance, which has improved in the past two years, will be subject to the evolving economic climate anticipated in 2008.

Risk tendency

Risk tendency at 2007 year-end reflected an increase in portfolio size as well as some weakening in credit grades, evidenced by wider spreads in wholesale credit and potentially more difficult conditions in some of the international retail portfolios in 2008.

Country risk

The portfolio is reasonably well diversified, assisted by increases in business levels in a range of European, African and Asian countries.

Market risk

Dislocation in the credit markets had an impact on all major interest rate, equity and foreign exchange markets, which also experienced higher volatility, particularly in the second half. Barclays Capital s market risk exposure, as measured by average total Daily Value at Risk (DVaR), increased 13% to an average of £42m in 2007. Over the same period, average daily market risk revenue increased 19% to £26m, satisfying our objective that trading revenues should grow at or above the rate of increase in risk levels. The average DVaR on interest rate and credit spread exposures was broadly unchanged, with increasing volatility in credit spreads offset by reduced positions held in the credit markets.

This reduction in exposure resulted in a lower level of credit stress loss, which is another important market risk control for Barclays Capital. Average commodity DVaR and equity DVaR increased as those businesses grew. Diversification across risk types remaining significant, reflecting the broad product mix. Higher market volatilities in the fourth quarter led to an increase in DVaR at year end, and will contribute to higher average DVaRs in 2008.

Liquidity risk

Bank funding markets and general liquidity in credit markets came under pressure in 2007. In the second half, some money market participants faced difficulties in obtaining funding beyond one week, and term LIBOR premiums rose despite the helpful provision of liquidity by central banks. The cost of longer-term bank funding and capital also increased, and funding channels such as securitisation and covered bond issuance became significantly constrained. Despite these developments, the Group s liquidity position remained strong due to its deep retail funding base, its diversity of institutional funding sources across tenors, counterparties and geographies and its limited reliance on securitisation as a funding source.

Operational risk

In 2007, Barclays embedded the advanced measurement approach (AMA) to operational risk across the Group, having received AMA approval from the FSA and the SARB. Barclays now allocates operational risk economic capital by business, providing operational insight and greater tangible incentives to the Group s businesses to further improve the management of their operational risk profiles. As a percentage of revenues, operational risk events fell in 2007.

Financial crime

The Group introduced two-factor authentication for online transactions through its PINsentry device and continued to offer all UK personal customers anti-phishing software to combat internet fraud. Combined with improvements in transaction profiling, these changes enabled us to reduce net reported fraud losses. The threat from financial crime constantly evolves, however, and Barclays will continue to build the capacity to respond rapidly to emerging issues as well as to invest in strategic improvements in transaction channel security.

Basel II and capital management

New capital adequacy rules came into force in the UK from 1st January 2008, following the implementation of the Basel II banking accord. Barclays regulatory capital requirement will now more closely reflect the risk profile as measured by its own risk measurement systems (an approach termed the Advanced Internal Ratings Based approach or AIRB).

Permission from the FSA to apply the AIRB approach to capital calculations was the culmination of a lengthy and detailed programme of work across all business areas and covering all risk types. As part of the application process, Barclays assessed over 200 models to ensure that they were consistent with regulators standards and that they met the use test, which assesses a model s fitness as an input to capital calculations by the extent to which management make use of its output in business decisions.

Our focus over the coming years will be to further enhance risk models, processes and systems infrastructure, in line with our ambition to remain at the leading edge of risk management. With the most significant portfolios already consistent with the AIRB approach, the focus of our Basel II work will now be to progress the roll-out of the advanced approach for the remaining minority of our portfolios. In line with the schedule agreed with regulators, we will complete this process by 2011.

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Risk management

Barclays approach to risk management

Barclays approach to risk management

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

The Group s **Risk appetite** sets out the level of risk that the Bank 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 Bank 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 71).

The **Principal risk** 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 68).

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 70).

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 coordination 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	Strategy
Direct	Understand the principal risks to achieving Group strategy. Establish Risk Appetite. Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	Establish the process for identifying and analysing business-level risks.

	Agree and implement measurement and reporting standards and methodologies.
Control	Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. Monitor the operation of the controls and adherence to risk direction and limits. Provide early warning of control or appetite breaches. Ensure that risk management practices and conditions are appropriate for the business environment.
Report	Interpret and report on risk exposures, concentrations and risk-taking outcomes. Interpret and report on sensitivities and Key Risk Indicators. Communicate with external parties.
Manage and Challenge	Review and challenge all aspects of the Group s risk profile. Assess new risk-return opportunities. Advise on optimising the Group s risk profile. Review and challenge risk management practices.

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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 Risk Director, under delegated authority from the Group Chief Executive and Group Finance Director, has responsibility for ensuring effective risk management and control.

Risk-Type Heads exist at Group-level for the main risk types, and report to the Risk Director. Along with their teams, they are responsible for establishing a risk control framework and risk oversight.

Each business has an embedded risk management team reporting to a Business Risk Director or Chief Credit Officer who reports to the 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, each under the management of a Business Risk Director, 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 expanded 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

The Committees shown below receive regular and comprehensive reports. The Board Risk Committee receives a quarterly report covering all of our principal risks. The Board Audit Committee receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both 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

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Material risks and control framework

As well as overall responsibility for the Group s risk exposure versus appetite, the Board is also 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), thirteen 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 and Central Support Units. 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 or Central Support Unit 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 93) and include policies on:

- Internal Risk Event Identification and Reporting
- Detailed Risk and Control Assessment
- Key Indicators
- Key Risk Scenarios

Business Unit and Central Support Unit 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.

Principal Risks	Other Level 1 Risks
Retail Credit	Strategic
Wholesale Credit	Change
Market	Corporate Responsibility
Capital	Brand Management
Liquidity	
Financial Crime	
Operations	
Technology	
People	
Regulatory	
Financial Reporting	
Legal	
Taxation	

Capital adequacy

In order to maximise shareholder value through optimising both the level and mix of capital resources, Barclays operates a centralised capital management model, considering both regulatory and economic capital. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors including returns on economic and regulatory capital.

The Group s capital management objectives are to:

- Support the Group s AA credit rating.
- Maintain sufficient capital resources to support the Group s risk appetite and economic capital requirements.
- Maintain sufficient capital resources to meet the FSA s minimum regulatory capital requirements and the US Federal Reserve Bank s requirements that a financial holding company be well capitalised.
- Ensure locally regulated subsidiaries can meet their minimum capital requirements.

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 include:

- Establishment of internal targets for capital demand and ratios
- Ensuring local entity regulatory capital adequacy
- Annual Risk Appetite setting
- Review of the Group strategic medium-term plan
- Economic capital management
- Stress testing
- Managing capital ratio sensitivity to foreign exchange rate movements

Internal targets

To support its capital management objectives, the Group sets internal targets for its key capital ratios. The internal targets exceed minimum capital requirements to take into account:

- Possible volatility in the anticipated demand for capital caused by accessing new business opportunities, including mergers and acquisitions, by unanticipated drawdown of committed facilities or by deterioration in the credit quality of the Group s assets

Possible volatility of reported profits and other capital resources compared with forecast

Capital ratio sensitivity to foreign exchange rate movements

A need for flexibility in debt capital issuance and securitisation plans

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Risk management

Barclays approach to risk management

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 subsidiary entity minimum regulatory capital requirements with reporting to local Asset and Liability Committees and to Treasury Committee, as required.

Injections of capital resources into Group subsidiary entities are controlled under authorities delegated from the Group Executive Committee. The Group s policy is for profits generated in subsidiary entities to be repatriated to Barclays Bank PLC in the form of dividends.

Annual risk appetite setting

Risk Appetite is the level of risk 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 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
- Help 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
- Enable unused risk capacity to be identified and thus profitable opportunities to be highlighted.

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.

Review of the Group s strategic medium-term plan

Capital adequacy forms a critical part of the Group s annual strategic medium-term planning process. During the planning process, the Group sets limits for business capital demand to ensure the capital management objectives including meeting internal targets will continue to be met over the medium-term period. Treasury Committee reviews the limits on a monthly basis.

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Achieving the planned performance in each business is dependent upon the ability of the business to direct, assess, control, report, and manage and challenge the risks in the business accurately. Group Risk supports the planning process by providing robust review and challenge of the business plans to ensure that:

The figures relating to risk are internally consistent and accurate

The plans are achievable given the risk management capabilities of the businesses

The plans efficiently utilise, but do not exceed, the Group s risk appetite.

This review and challenge is achieved through Risk Executive Dialogues involving among others, the Group Risk Director and the business risk directors.

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, Business Risk, Operational Risk, Insurance Risk, Fixed Assets and Private Equity. 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 cyclicality 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.

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

- Higher interest rates

- Lower equity prices

- Interest rate curve shifts

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. high value mortgages in the South East of England), to portfolio level stresses (e.g. the overall commodities portfolio).

Managing capital ratio sensitivity to foreign exchange rate movements

The Group s regulatory capital ratios are sensitive to foreign exchange movements in reserves, goodwill, minority interests and other non Sterling debt capital as well as non Sterling risk weighted assets. For material currencies, the Group seeks to hold capital in currencies to match the risk weighted assets transacted in those currencies, in the same proportion as the Group capital ratio targets, also taking into account the impact of hedging net investments.

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 Policy for the Control of Model Risk has been developed.

The Policy helps reduce the potential for model failure by setting minimum standards around the end-to-end model development and implementation process. The Policy also sets the Group governance processes for all models, which allows model risk to be monitored across the Group, 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. Group Model Risk Policy 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 Group Executive Committee (ExCo).

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 recreate the model from the original data sources. 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 used in the model, and 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 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. The rules for model sign-off are 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. The most material models receive their ultimate sign-off for implementation from Group ExCo.

All models within the Group are subject to an annual review, to ensure that the models are performing as expected, and that assumptions used in model development are still appropriate. In additional to annual review, many models are subject to more frequent performance monitoring. Model performance monitoring ensures that deficiencies in models are identified early, and that remedial action can be taken before the deficiency becomes serious and affects the decision-making process.

Externally developed models are subject to the same standards as internal models, and must be initially approved for use following a validation and independent review process. External models are also subject to the same standards for ongoing monitoring and annual validation requirements.

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Risk management

Credit 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. 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. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending.

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 two-thirds of risk-based economic capital is allocated to credit risk. Credit exposures arise principally in loans and advances.

In managing credit risk, the Group applies the five-step risk management process and internal control framework described previously (page 67).

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 pro-active 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 correctly reflects the value of our assets in accordance with accounting principles.

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 (see page 69 for more details of this Committee). The Board Audit Committee also reviews the impairment allowance as part of financial reporting.

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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)
- Severity of loss given default (LGD)

Barclays first began to use internal estimates of PD (internal ratings) in all its main businesses in the 1990s. Internally derived estimates for PD, EAD and LGD have been used since then in all 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 in its regulatory capital calculations. In preparation, Barclays has 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 are 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 probability of default, exposure at default and loss given default are building blocks used in a variety of applications that measure credit risk across the entire portfolio.

Two examples are Risk Tendency (RT) and Expected Loss (EL) which are statistical estimates of the average loss for the loan portfolio for a 12-month period, taking into account the portfolio s size and risk characteristics under either current credit conditions (RT) or average credit conditions (EL). As such, RT uses a point-in-time PD while EL uses a through-the-cycle PD but the basic calculation is the same for both:

PD x EAD x LGD

Since through-the-cycle PDs provide a measure of risk that is independent of the current credit conditions for a particular customer type, they are more stable than point-in-time ratings. RT and EL provide insight into the credit quality of the portfolio and assist management in tracking risk changes as the Group s stock of credit exposures evolves in size or risk profile in the course of business.

As our understanding and experience have developed, we have extended the use and sophistication of internal ratings. The other main business processes that use internal estimates of PD, LGD and EAD, are as follows:

- 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 (Barclays Masterscale).
- Credit Approval a rating scale is used to set differentiated credit sanctioning levels based upon a PD, so that credit risks are reviewed at appropriate levels.

- Risk Appetite measures of expected loss and the potential volatility of loss are used in the Group s Risk Appetite framework (see page 71).

- Pricing within the corporate mass market portfolios we first developed and used risk adjusted pricing models in the early 1990s to differentiate risk reward decisions.

- IAS Impairment calculations many of our collective impairment estimates incorporate the use of our PD and LGD models.

- Economic capital (EC) allocation most EC calculations use the same through-the-cycle 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 economic downturn adjustment used in RC calculations.

- Risk management information Group and the main business units have for several years received either Key Information Packs or other risk reports focused on EL and EC information 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 and risk tendency, 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.

When each PD model is constructed, its output is specified as one of point-in-time (PIT) or through-the-cycle (TTC) or a hybrid, e.g. a 50:50 blend. Using this distinction between PIT and TTC, the PDs are bucketed into both PIT Default Grades (DGs) and TTC bands, adopting techniques that are relevant to the model s initial output calibration, the industry and location of the counterparty and an understanding of the current and long-term credit conditions. Two grades are therefore recorded for each client, the DG and the TTC band. A customer may therefore be rated DG 6 reflecting sectoral performance and TTC band 8 reflecting long-term credit conditions.

This same PIT/TTC distinction is applied to agency ratings. Within Barclays, an agency alphabet rating is also expressed in terms of PIT DG and TTC band. It is therefore no longer possible to produce a static mapping of agency letter ratings to either DGs or TTC bands because they are considered a hybrid of both PIT and TTC. As such, any mappings would change over time with movements in the credit cycle.

Barclays internal rating system also differentiates between corporate and retail customers.

For corporate portfolios (primarily Barclays Capital, BCB and the commercial areas of IRCB), 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 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.

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Risk management

Credit risk management

A key element of the Barclays framework is the Masterscale. This has been developed to record differences in the probability of default risk at meaningful levels throughout the risk range (see table below).

In contrast to corporate businesses, retail areas do not bucket exposures into generic grades or bands for account management purposes (although they may be used for reporting purposes). Instead, accounts are managed based on internal, product specific segmentations of accounts, for instance, deriving from the cut-offs of the associated models. The cut-offs may be in the form of a score, a probability of default, a measure of forecast loss or a more sophisticated risk/reward based measure.

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, 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 default. 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 their loans is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process combine to a figure called the **loss given default** (LGD), which is expressed as a percentage of EAD.

Using historical information, the Group can estimate how much is likely to be lost, on average, for various types of loans. To illustrate, LGD is lower for residential mortgages than for unsecured loans because of the property pledged as collateral.

The level of LGD depends on: the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); 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 businesses can readily be refinanced or the availability of a repayment source for personal customers.

The Barclays Masterscale (Wholesale)

DG/TTC	Default Probability		
Band	>=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%

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.

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.

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. External models employed include Moody s Credit Edge, rating agency ratings and Moody s RiskCalc. 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 models
- 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 externally obtained data sets from commercial providers such as rating agencies and industry gathering consortia.

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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. Where possible, the characteristics identified by the expert lenders for use in these models are linked during the modelling process to the Merton framework. This linkage ensures that the model is intuitive and that there is some economic rationale for the default process that is being captured by the model.

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 (e.g. Pluto Tasche) 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 **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.

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.

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 retail approval and customer management (e.g. limit setting, cross-sell etc.) processes.

Models used include application and behavioural scorecards and/or PD/LGD and EAD models. These may be used in isolation, in combination to produce measures of forecast loss or as part of a suite of models that underpin risk/reward based decisions. The score cut-offs will be set at the appropriate level depending on the specific objective, such as ensuring all the accepted accounts meet the minimum required return on EC. It is Barclays philosophy to embed the Basel models as extensively as possible in the portfolio management process. This is an ongoing initiative and we expect greater convergence over time.

In line with Basel II requirements, Barclays will use all available relevant data, including data relating to other Barclays accounts and external agency data. Barclays does not use pooled data.

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 derived, some expert lender models are used, particularly where data limitations preclude a more sophisticated approach. For mortgage originations Barclays use a third party scorecard (Omniscore), supported by a series of policy rules, to arrive at a lending decision.

All new models, including third party models, are measured against the required Group minimum standards as detailed in the Barclays Model Risk Policy.

For retail asset classes, Basel II specifies that the definition of default must include a trigger based on days past due, with the number of days being between 90 and 180. All Barclays advanced internal ratings-based models are compliant with this, with the majority using 180 days as the trigger. In all cases LGD models are specified so that they have a definition of default aligned to that used in the corresponding PD model.

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 73). 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
- 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 can include 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

Risk Tendency

As part of its credit risk management system, the group uses a model-based methodology to assess the point-in-time expected loss of credit portfolios across different customer categories. The approach is termed Risk Tendency and applies to credit exposures not already reported as Credit Risk Loans for both wholesale and retail sectors. Risk tendency models provide statistical estimates of average expected loss levels for a rolling 12-month period based on averages in the ranges of possible losses expected from each of the current portfolios. This contrasts with impairment charges as required under accounting standards, which derive almost entirely from Credit Risk Loans where there is objective evidence of actual impairment as at the balance sheet date.

Since Risk Tendency and impairment allowances are calculated for different parts of the portfolio, for different purposes and on different bases, Risk Tendency does not predict loan impairment. Risk Tendency is provided to present a view of the evolution of the scale and quality of the credit portfolios.

In 2007, Risk Tendency increased 4% (£95m) to £2,355m (2006: £2,260m), significantly less than the 23% growth in the Group s loans and advances balances. This relatively small rise in Risk Tendency reflected, in particular, the improving risk profile of the UK unsecured loan book. Other factors influencing Risk Tendency included: methodology changes in Barclaycard, UK Retail Banking and International Retail and Commercial Banking Absa; the sale of the Monument portfolio; and a maturing credit risk profile in the international card portfolios.

UK Retail Banking Risk Tendency decreased £30m to £470m (2006: £500m). This reflected an improvement in the credit risk profile in the UK unsecured consumer lending portfolios, partially offset by the impact of methodology changes and asset growth.

Risk Tendency in Barclays Commercial Bank increased £15m to £305m (2006: £290m). This reflected some growth in loan balances offset by improvements in the credit risk profile.

Barclaycard Risk Tendency decreased £190m to £945m (2006: £1,135m). This reflected improvement in the credit risk profile of UK cards, the sale of part of the Monument portfolio and methodology changes in UK cards, partially offset by asset growth in the international portfolios.

Risk Tendency at International Retail and Commercial Banking excluding Absa increased £145m to £220m (2006: £75m), reflecting an increase to the risk profile and balance sheet growth in Emerging Markets and Western Europe.

In International Retail and Commercial Banking Absa, the increase of £110m in Risk Tendency to £255m (2006: £145m) included a change to the methodology following the introduction of Basel compliant, PD, EAD and LGD models. Excluding this change, Risk Tendency increased £90m, reflecting a weakening of retail credit conditions in South Africa after a series of interest rate rises in 2006 and 2007 and balance sheet growth.

Risk Tendency in Barclays Capital increased £45m to £140m (2006: £95m) primarily due to drawn leveraged loan positions. 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.

Since Risk Tendency and impairment allowances are calculated for different parts of the portfolio, for different purposes and on different bases, Risk Tendency does not predict loan impairment.

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. For further discussion concerning credit risk mitigation, see credit risk Note 47.

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. (Credit derivatives may also be traded for profit; details of these activities may be found on page 89 and Note 14 to the accounts).

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, 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. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to highly rated borrowers than to lower rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses 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.

Notes

a Head office functions and other operations comprises discontinued businesses in transition.

b Excludes ABS CDO Super Senior positions as these are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

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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 and other financial institutions. 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, which specifies Risk Appetite by country and avoids 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 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 loss given default. The Country Guideline for all graded countries is set by the Group Credit Committee (GCC) based on the Prudential Guideline and the internal appetite for country risk. The Country Guideline may therefore be above or below the Prudential Guideline.

Country risk is managed 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 GCC. 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 GCC, 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 Group Credit Risk Director. Discretions exist to increase the Country Guideline above the level agreed by GCC 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.

A further mitigant against undesirable concentration of risk is the mandate and scale framework described on page 71. 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.

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 undertakes securitisations of its own originated assets as well as the securitisation of third party assets via sponsored conduit vehicles and shelf programmes.

Barclays securitises its own originated assets in order to remove risk from the Group s credit position, to obtain regulatory capital relief, and to obtain 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

Barclays also 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.

In relation to such conduit activity, Barclays may also 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.

RWAs reported for securitised assets as at December 2007 are calculated in line with rules set out in IPRU (BANK) as well as any individual guidance received from the FSA as at the end of this period.

As of 1st January 2008, Barclays calculates securitisation RWAs using the ratings based approach and/or the supervisory formula method as per the FSA s revised rules, which implement the Basel Accord and Capital Requirements Directive.

Further information about securitisation activities and accounting treatment is in Note 29. The Group s accounting policies, including those relevant to securitisation activities (policies 4 and 10), are on pages 149 and 152.

Barclays employs External Credit Assessment Institutions to provide ratings for its asset backed securities. Their use is dependant 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 only for securitisations of small and medium-sized entity and revolving retail exposures.

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Monitoring of 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 accounting principles. This process can be broken down into the following 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

Fig. 1: Loans and advances

	2007 **£m**	2006 £m
Retail businesses		
Banks		
Customers	**164,062**	139,350
Total retail businesses	**164,062**	139,350
Wholesale businesses		
Banks	**40,123**	30,930
Customers	**185,105**	146,281
Total wholesale businesses	**225,228**	177,211
Loans and advances	**389,290**	316,561

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; see page 46). 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 2007, outstanding loans and advances to customers and banks were valued at £389bn (2006: £317bn), of which £349bn (2006: £286bn) was granted to personal or corporate customers (see figure 1). Loans and advances were well distributed across the retail and wholesale portfolios.

Loans and advances were well spread across industry classifications (figure 2). Excluding Financial Services, Barclays largest sectoral exposures are to home loans, other personal and business and other services. These categories are generally comprised of small loans, have low volatility of credit risk outcomes, and are intrinsically highly diversified.

Balances are also diversified across a number of geographical regions (figure 3, based on location of customers). The majority of Barclays exposure is to the UK, which includes secured home loans exposure, followed by the United States, Africa and the rest of the European Union.

Fig. 4: Analysis of loans-to-value ratios of mortgages in the UK home loan portfolio at 31st December 2007 %

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.

UK exposure to home loans accounts for just over 60 per cent of the Group s total home loans exposure. The loan-to-value ratios (LTV) on the Group s UK home loan portfolio are shown in figure 4. The valuations in the chart are those which applied at the last credit decision on each loan, i.e. when the customer last requested an increase in the limit or, if there has been no increase, at inception of the loan. Business flows (new business versus loans redeemed) have not materially changed the risk profile of the portfolio.

The impact of house price inflation will result in a reduction in LTV ratios within the mortgage book on a current valuation basis. On this basis, LTV on the residential mortgage book averaged 33% at the end of 2007 (2006: 34%). This ratio is a point-in-time analysis of the stock with LTV updated to current house prices by reference to an external price index and as a result may be influenced by external market conditions as well as changes in the stock of loans.

Barclays also actively monitors the risk profile of its loans and advances to customers, with a view to the early detection of any concentrations in higher risk segments. Figure 5 depicts Barclays wholesale loan profile by existing risk grade (see page 67 for a description of the rating system). The majority of Barclays exposure is to the higher quality names with just under 70% of exposure to customers with a DG of 10 or better. It is important to note that Barclays prices loans to risk. Thus, higher risk loans will usually have higher interest rates or fees or both. The profitability of a higher risk portfolio may, therefore, equal or exceed that of a lower-risk portfolio.

Barclays also actively monitors exposure and concentrations to sub-investment grade countries (see country risk policy, page 66). Details of the 15 largest sub-investment grade countries, by limit, are shown in figure 6.

Contractual maturity represents a further area of potential concentration. The analysis shown in figure 7 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.

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Risk management

Credit risk management

Monitoring weaknesses in exposures

Barclays actively manages its credit exposures. Corporate accounts that are deemed to contain heightened levels of risk are recorded on graded early warning or watch lists comprising three categories of increasing concern. 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.

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, International Retail and Commercial Banking 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.

Potential credit risk loans

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. 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 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.

Notes

a In 2003, credit risk loans and potential problem loans were disclosed based on the location of the booking office. In 2004-2007 they were disclosed by location of customers.

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

c 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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The category accruing past due 90 days or more comprises loans that are 90 days or more past due as to principal or interest where there is no expectation of ultimate write-off (whether in part or full) of the principal owed. Impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate is 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 it 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.

The term Credit Risk Loans has replaced the term Non-Performing Loans (NPLs) as the collective term for the total of these three classes since it recognises 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 potential problem loans (PPLs) and credit risk loans (CRLs). Figures 8 and 9 show CRL and PPL balances by geography. The amounts are shown before deduction of value of security held, impairment allowances (from 2005 onwards) and provisions or interest suspense (2004

and earlier), all of which might reduce the impact of an eventual loss, should it occur. The significant increase to non-UK CRL and PPL balances is principally due to the inclusion of US-located ABS CDO Super Senior positions and other credit market exposures.

Figures 12 and 13 show impairment allowances as a percentage of CRLs and PCRLs. Including the drawn ABS CDO Super Senior positions, allowance coverage of CRLs and PCRLs decreased to 39.1% (31st December 2006: 65.6%) and 33.0% (31st December 2006: 57.0%), respectively. These movements reflect the fact that allowance coverage of ABS CDO Super Senior credit risk loans was low relative to allowance coverage of other credit risk loans since substantial protection against loss is also provided by subordination and hedges. On ABS CDO Super Senior exposures, the combination of subordination, hedges and write-downs provided protection against loss levels to 72% on US sub-prime collateral as at 31st December 2007.

Figures 14 and 15 show allowance coverage of CRLs and PCRLs excluding the drawn ABS CDO Super Senior positions decreased to 55.6% (31st December 2006: 65.6%) and 49.0% (31st December 2006: 57.0%), respectively. The decrease in these ratios reflected a change in the mix of CRLs and PCRLs. Unsecured retail exposures, where the recovery outlook is 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 PCRLs.

Notes

a In 2003, credit risk loans and potential problem loans were disclosed based on the location of the booking office. In 2004-2007 they were disclosed by location of customers.

b 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

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 and 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 International Retail and Commercial Banking 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 calculated using a weighted average for the relevant portfolio. This method applies to parts of International Retail and Commercial Banking, Barclaycard and UK 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 Group Credit Committee for agreement.

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 Barclays Risk Director, as delegated by the Chief Executive, and is chaired by Barclays Credit Risk Director.

GCRIC reviews the movements to impairment in the businesses, including those already agreed at Group Credit Committee, Potential Credit Risk Loans and Risk Tendency.

These committees are supported by a number of Group Policies including: Group Retail Impairment and Provisioning Policy; Group Wholesale Impairment and Provisioning Policy; and, Group Model Policy.

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.

Fig. 16: Impairment charges for bad and doubtful debts

	2007 £m	2006 £m	2005 £m
UK Banking	849	887	671
Barclaycard	838	1,067	753
International Retail and Commercial Banking	252	167	33
Barclays Capital	846	42	111
Barclays Global Investors			
Barclays Wealth	7	2	2
Head office functions and other operations	3	(11)	1
Total impairment charges	2,795	2,154	1,571

Fig. 17 Impairment/provisions charges over five years £

Notes

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

GCRIC has delegated the detailed review of loan impairment in the businesses to the Retail and Wholesale Credit Risk Management Committees.

In 2007, total impairment charges on loans and advances and other credit provisions increased 30% (£641m) to £2,795m (2006: £2,154m) reflecting charges of £782m against ABS CDO Super Senior and other credit market positions.

Impairment charges on loans and advances and other credit provisions as a percentage of Group total loans and advances rose to 0.71% (2006: 0.65%); total loans and advances grew by 23% to £389,290m (2006: £316,561m).

Retail impairment charges on loans and advances fell 11% (£204m) to £1,605m (2006: £1,809m). Retail impairment charges as a percentage of period-end total loans and advances reduced to 0.98% (2006: 1.30%); total retail loans and advances rose by 18% to £164,062m (2006: £139,350m)

Barclaycard impairment charges improved £229m (21%) to £838m (2006: £1,067m) reflecting reduce 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 the increase in impairment charges in Barclaycard International and secured consumer lending.

Impairment charges in UK Retail Bank decreased by £76m (12%) to £559m (2006: £635m), reflecting lower charges in unsecured Consumer Lending and Local Business driven by improved collection processes, reduced flows into delinquency, lower trends of arrears 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.

Impairment charges in International Retail and Commercial Banking excluding Absa rose by £38m (93%) to £79m (2006: £41m) reflecting very strong balance sheet growth in 2006 and 2007 and the impact of lower releases in 2007.

Arrears in some of International Retail and Commercial Banking Absa s key retail portfolios deteriorated in 2007, driven by interest rate increases in 2006 and 2007 resulting in pressure on collections.

Wholesale and corporate impairment charges on loans and advances increased £436m to £701m (2006: £265m). Wholesale and corporate impairment charges as a percentage of period-end total loans and advances increased to 0.31% (2006: 0.15%); total loans and advances grew by 27% to £225,228m (2006: £177,211m).

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

The impairment charge in Barclays Commercial Bank increased by £38m (15%) to £290m (2006: £252m), primarily due to higher gross impairment charges in Larger Business, partially offset by a lower charge in Medium Business due to a tightening of the lending criteria.

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 decreased by £211m to £1,963m (2006: £2,174m).

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

Market risk management

Market risk management

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. The main market risk arises from trading activities. Barclays is also exposed to interest rate risk in the banking book 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.

Organisation and structure

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 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 Risk Director, the Market Risk Director, the 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 the 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 is held monthly and is chaired by the Market Risk Director. Attendees include the 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 the main Barclays Capital business areas covering the different risk categories including 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 Products Risk Review meeting. The attendees at this meeting include senior managers from Barclays Capital and the central market risk team.

Outside Barclays Capital, Global Retail and Commercial Banking is responsible for the non-structural interest rate risk in the banking book and Group Treasury is responsible for structural risk (interest rate and FX). The chart below right gives an overview of the business control structure.

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, Barclays manages client and market activities together. In Barclays Capital, trading risk occurs in both the trading book and the banking book as defined for regulatory purposes.

In anticipation of future customer demand, Barclays maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments, including a broad range of cash, securities and derivatives. Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, credit derivatives, options and combinations of these instruments. For a description of the nature of derivative instruments, see page 89.

Traded market risk measurement

The measurement techniques used to measure and control traded market risk include Daily Value at Risk and Stress Testing.

Daily Value at Risk (DVaR) is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

DVaR uses the historical simulation method with a historic sample of two years. The credit spread calculation takes into account specific risks associated with different business names.

There are a number of considerations that should be taken into account when reviewing DVaR numbers. These are:

- historical simulation assumes that the past is a good representation of the future which may not always be the case.

- the assumed one day time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within one day.

- DVaR does not indicate the potential loss beyond the 98th percentile.

To complement DVaR, stress testing is performed and there is a large set of non-DVaR limits including foreign exchange concentration limits and interest rate delta limits.

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 number of days when trading losses exceed the corresponding DVaR estimate.

On the basis of DVaR estimated to a 98% confidence level, on average there would be five days each year when trading losses would be expected to exceed DVaR and would therefore be reflected as back-testing exceptions. For Barclays Capital s trading book, there were seven instances of a daily trading loss exceeding the corresponding 98% back-testing DVaR. These back-testing exceptions in 2007 reflected the increased volatility across a number of markets in which Barclays Capital operates. There were no instances of back-testing exceptions on a similar basis in 2006.

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. The three main types of stress test are:

- risk factor: historical stress moves are applied to each of the risk categories which include interest rate, credit spread, commodity, equity and foreign exchange rate

- emerging market contagion: historical stress moves combined with contagion factors are applied to the emerging markets portfolio

- scenario: stress scenarios are applied to the trading book

Stress results are produced at least fortnightly and are included in the Traded Products Risk Review meeting information pack. 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 and the respective Barclays Capital Business Head(s). 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.

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Risk management

Market risk management

Analysis of traded market risk exposures

The analysis of traded market risk exposures is given in Note 46.

Analysis of trading revenue

The histograms show the distribution of daily trading revenue for Barclays Capital in 2007 and 2006. Revenue includes net trading income, net interest income and net fees and commissions relating to primary trading. The average daily revenue in 2007 was £26.2m (2006: £22.0m) and there were 224 positive revenue days out of 253 (2006: 243 out of 252). The number of negative revenue days increased in 2007 largely as a result of volatile markets in the second half of the year. The number of large positive revenue days also increased but these were spread across the year.

Interest rate risk in the banking book

Interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, as well as structural exposures within Barclays balance sheet.

The management approach of Barclays with respect to interest rate risk is to transfer the risk from the businesses either into local treasuries or to Group Treasury using an internal transfer price or interest rate swap. The methodology used to transfer this risk depends on whether the product contains yield curve risk, basis risk or customer optionality. Limits exist to ensure no material risk is retained within any business or product area.

Once each business s risk has been transferred, the treasuries manage any residual yield curve and basis risks subject to modest risk limits and other controls. Market risk is also taken in overseas treasuries, within these limits, to support and facilitate customer activity.

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include Annual Earnings at Risk, Daily Value at Risk and Stress Testing.

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income (NII) over the next 12 months. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a 50 basis points increase or decrease in interest rates.

Outside Barclays Capital, Barclays uses a simplified approach to calculate DVaR. It is used as a complementary tool to AEaR. Both AEaR and DVaR are supplemented by stress testing and a range of non-DVaR limits.

Stress testing is 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.

Analysis of interest rate risk in the banking book exposures

The analysis of interest rate risk in the banking book is given in Note 46.

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. These investments may comprise various liquid instruments, such as cash, bonds and listed equities, to cover future insurance liability flows, and may therefore give rise to a mismatch between the revaluation of assets and liabilities. It is Barclays policy to hedge such exposures in line with a defined risk appetite.

Barclays policy is for foreign exchange trading risk to be concentrated and managed in Barclays Capital. Some transaction 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 end 2007. Other non-Barclays Capital foreign exchange exposure is covered in Note 46.

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. Where support agreements exist, the Group is exposed to the performance of the underlying asset. This exposure arises mainly within Barclays Global Investors, but also in Global Retail and Commercial Banking, and Barclays Wealth. It is Barclays policy that businesses monitor and report this risk against a defined risk appetite and regularly assess potential hedging strategies.

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Risk management

Derivatives

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 86 to 88.

The policies for derivatives that are used to manage the Group s own exposure to interest and exchange rate fluctuations are outlined in the asset and liability market risk section on page 223.

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.

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.

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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 natural gas, with 2007 seeing the addition of oil and related products to this portfolio. Physical commodity positions are held at fair value and reported under the Trading Portfolio in Note 12.

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 49.

Credit risk

Credit risk exposures are actively managed by the Group. Refer to Note 47 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 commodity derivative contracts by movement over time and maturity. As at 31st December 2007 the fair value of the commodity derivative contracts reflects a gross positive fair value of £23,571m (2006: £17,501m) and a gross negative value of £22,759m (2006: £15,940m).

Movement in fair value of commodity derivative positions

	2007 £m	2006 £m
Fair value of contracts outstanding at the beginning of the period	1,561	527
Contracts realised or otherwise settled during the period	(764)	379
Fair value of new contracts entered into during the period	243	808
Other changes in fair values	(228)	(153)
Fair value of contracts outstanding at the end of the period	812	1,561

Maturity analysis of commodity derivative fair value

	2007 £m	2006 £m
Not more than one year	(279)	902
Over one year but not more than five years	773	327
Over five years	318	332
Total	812	1,561

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Risk management

Liquidity management

Liquidity management

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend. The risk that it will be unable to do so is inherent in all banking operations and can be impacted 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.

Liquidity risk management and measurement

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 mission critical process: any failure to meet specific intraday commitments would have significant consequences.

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. 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, managed by short term mismatch limits for the next day, week and month which control expected cash flows to ensure that requirements can be met. These requirements include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets 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 unmatched medium-term assets and 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 to ensure market access. The Group does not rely on committed funding lines for protection against unforeseen interruption 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 competitive rates 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.

Risk management

Liquidity management

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 on a global basis with customer deposits 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.

Stress tests

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 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.

The ability to raise funds is in part dependent on maintaining the Bank s credit rating. The funding impact of a credit downgrade is regularly estimated. 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 46.

Recent market events

The second half of last year saw a sustained period of severe stress in international financial markets characterised by increased volatility and impaired liquidity. Issuance of debt, particularly structured credit and mortgage related, fell sharply. The asset-backed commercial paper market was severely disrupted, resulting in the drawn down of committed liquidity lines from banks, while primary issuance of mortgage-backed securities and covered bonds stopped for a time. The repo markets including tri-party were also disrupted with the repo market for corporate debt closing for a time. Term money market funding became difficult to obtain and spreads over official rates widened.

The Group maintained its strong liquidity profile throughout and saw some benefit from a flight to quality in financial markets. Nevertheless, Barclays, like its peers, was affected by the increased volatility and impaired liquidity in financial markets. During this period the Group s balance sheet expanded due to:

- The disruption of the Asset Backed Commercial Paper (ABCP) market led to liquidity facilities for third party conduits being drawn down.
- Liquidity facilities were provided to three client SIV-lites which were restructured during the period.
- A number of loan syndications were delayed and remained on our balance sheet.

The demand for ABCP issued by Barclays-sponsored conduits weakened temporarily with the result that a small portion of their funding was provided by Barclays.

These liquidity demands were all successfully managed within overall funding requirements despite occasional disruption of access to some funding markets. Although term funding in interbank markets substantially disappeared, liquidity remained good for Barclays.

Barclays diversified portfolio of highly marketable securities enabled the Group to continue accessing the repo market. Securitisation accounts for a modest proportion of the Group s funding so the disruption to the securitisation market has not significantly impacted the Group s liquidity position.

Assessment of liquidity

Barclays liquidity position remains very strong both for its own paper and paper issued by its sponsored conduits. We have benefited from significant inflows of deposits, increased credit lines from counterparties, increased client flows and continued full funding of our conduits.

The markets in 2008 have substantially improved with the passing of the year end, and a degree of normality has returned to the term interbank markets. However we expect there to continue to be dislocations through 2008, and we remain vigilant to ensure that our liquidity profile remains strong.

The FSA published a discussion paper in December 2007 setting out draft proposals for a new quantitative framework for regulating liquidity of banks in the UK in the light of the experiences of 2007. We welcome the FSA intention to update the liquidity regime.

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Risk management

Operational risk management

Operational risk management

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 Barclays 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 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.

Organisation and structure

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 85). The risk categories relevant to operational risks are Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory, Technology and Change. In addition the following risk categories are used for business risk: Brand Management, Corporate Responsibility and Strategic.

Responsibility for implementing and overseeing these policies is positioned throughout the organisation. 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. Frontline 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-wide control issues and their remediation.

In the corporate 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 key 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 Group Risk Oversight Committee, the Board Risk Committee and the Board Audit Committee. In particular, the Group Operational Risk Profile and Group Operating Committee Report is provided quarterly to the Group Risk Oversight Committee. The Internal Audit function provides further assurance for operational risk control across the organisation and reports to the Board and senior management.

Operational risk 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 capability. 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 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. It is these that 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.

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. Figure 1 shows that in 2007, 79% of reported operational loss events had a value of £50,000 or less. Figure 2 shows that this 79% of risk events by count only amounted to 15% of risk events by value. In contrast, 2% of the operational risk events had a value of £1m or greater but accounted for 50% of the overall loss. This was consistent with 2006 risk events and, from our analysis of external data, is in line with industry experience.

Analysis of Barclays operational risk events in 2007 by Basel II category, as shown in figure 3, highlights that the highest frequency of events occurred in External Fraud (54%) and Execution, Delivery and Process Management (37%). These two areas also accounted for the majority of losses by value (figure 4), with Execution, Delivery and Process Management accounting for 52% of total operational risk losses and External Fraud accounting for 24%. This again was consistent with 2006 internal risk events and, from our analysis of external data, is in line with industry experience.

Barclays has been granted a waiver by the UK FSA to apply an Advanced Measurement Approach (AMA) for Group-wide consolidated and solus regulatory capital reporting. Barclays has applied the AMA Group-wide. The two areas where roll-out of AMA is still continuing are Banco Austral (Mozambique) and National Bank of Commerce Limited (Tanzania), where the Standardised Approach is currently applied. In certain joint ventures and associates, Barclays may not be able to apply the Advanced Operational Risk Framework. Barclays does not currently use insurance or expected losses to offset its regulatory capital requirement.

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Risk management

Operational risk management

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Risk management

Financial crime risk management

Financial crime risk management

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 policies and procedures in respect of AML, terrorist financing and sanctions, updating these regularly.

It operates an AML assurance programme to ensure a system of effective controls to comply with the overarching policies, providing technical guidance and support to each business unit.

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 Sanctions Cross Cluster Operational Review Board, the AML Steering Committee 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 2007, the Group augmented its AML capability, implementing third EU money laundering directive, with its guiding principle of a risk-based approach. For AML, this must be proportionate to the perceived risks and threats, including terrorist financing.

A new Group AML Policy, launched in December 2007 and encapsulating the risk-based approach, has further improved the Group s customer due diligence procedures and standards, transaction monitoring and staff training and awareness.

The Group also implemented EU Regulation 1781/2006, which aims to ensure thorough and robust audit trails concerning electronic transfers. This assists the Group in monitoring its AML and terrorist financing and improves the information available to law enforcement authorities.

Barclays continues to upgrade its sanctions screening capabilities, in line with best international practice and changing regulatory requirements. The Group has invested substantial resources to further enhance its monitoring capabilities in this area and will continue to do so.

In 2008, the Group will review procedures to ensure compliance with forthcoming legislation concerning the Single European Payments Area (SEPA). Should the US enact current draft legislation outlawing the use of the international payments and clearing systems for perceived illegal US internet gaming transactions, further enhancements to payments activity monitoring will follow.

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Financial crime risk management

Fraud risk

The Group establishes and operates a fraud risk control framework which measures overall fraud risk exposure and controls. Together with Group-wide policies, this directs how fraud is managed.

The Group Financial Crime Management team (GFCM) is responsible for delivering the overall fraud strategy and providing oversight to Group and Business Units in order to manage fraud risk. The strategy is designed to:

- Identify emerging threats in order that effective controls are embedded across the Group and build up capability to manage risk.

- Identify and manage fraud incidents, ensuring regulatory and legal conformance, appropriate escalation and control issues are addressed to prevent further loss.

- Work proactively to highlight areas of concern in order that remediation can take place.

GFCM assesses the fraud risk of existing and emerging products, services, processes and jurisdictions to drive down fraud losses as turnover/growth increases. It also represents Barclays at trade, industry and Government bodies providing a conduit to maximise the flow of information and intelligence. GFCM also provides technical expertise to business areas whether to drive through Group solutions or provide assistance with specific incidents and investigations.

Business Units, together with product holders and channels identify their appetite for fraud loss which informs and determines the overall fraud plan. Objectives are then set around these plans.

At a business level, fraud risk/loss committees track fraud (and in some cases operational) loss. The Barclays Group Fraud Risk profile is exercised regularly through the review and challenge of the net losses and key risk metrics; these are then viewed against the overall Fraud Risk Profile (Fraud Oversight Committee).

Fraud is reported monthly to senior management both within the Business Units and to Group who provide a global oversight of fraud loss. Fraud is measured against plan for both net and gross losses and in line with the Principal Risk Policy; Key Risk Indicators (KRIs) are embedded in order that overall exposure can be established.

As a result of this process, fraud performance both at Business Unit and Group level can be measured and appropriate action taken to minimise or track significant issues.

Externally there are in country industry-wide forums to which Barclays contributes and in some cases can benchmark performance, controls and current and emerging issues.

Barclays overall reported fraud losses fell in 2007, with most of the reduction coming from significant falls in internet banking fraud. As part of its efforts to enhance security, Barclays offers all its personal customers complimentary internet security software to reduce phishing attacks. The Group has also rolled out two-factor authentication technology using the new PINsentry device to make online transactions more secure. Enhanced transaction profiling has further improved our ability to identify where customer accounts have been targeted by fraudsters and take preventative action to protect funds.

Following the loss of personal data, including bank details, by both

Government agencies and other third parties, data protection and security was a prominent theme in 2007. Barclays treats any incident of this nature with the utmost importance and has worked closely with industry and the Government to take steps to:

- Reassure customers and provide points of contact for help and guidance.
- Protect any customer accounts, whose details may have been compromised.
- Develop a standard approach for dealing with accounts that may be impacted by data security breaches.

Security risk

Group Financial Crime Management (GFCM) also 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 that plans to protect high-risk personnel are fit for purpose and in line with accepted best practice.

Barclays has developed and continues to improve a robust people screening process to protect the bank 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.

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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 74 to 85).

Barclays applied International Financial Reporting Standards (IFRS) with effect from 1st January 2004, with the exception of IAS 32, IAS 39 and IFRS 4, which were applied from 1st January 2005.

Credit risk management

Table 1: Risk Tendency by business (page 78)

	2007	2006
	£m	£m
UK Banking	775	790
UK Retail Banking	470	500
Barclays Commercial Bank	305	290
Barclaycard	945	1,135
International Retail and Commercial Banking	475	220
International Retail and Commercial Banking excluding Absa	220	75
International Retail and Commercial Banking Absa	255	145
Barclays Capital	140	95
Barclays Wealth	10	10
Head office functions and other operations [a]	10	10
Risk Tendency by business	2,355	2,260

Table 2: Loans and advances

	2007	2006
	£m	£m
Retail businesses		
Banks		
Customers	164,062	139,350
Total retail businesses	164,062	139,350
Wholesale businesses		
Banks	40,123	30,930
Customers	185,105	146,281
Total wholesale businesses	225,228	177,211

Loans and advances	**389,290**	316,561

Note

a Head office functions and other operations comprises discontinued business in transition.

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Table 3: Maturity analysis of loans and advances to banks

	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	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

	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 2006	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom	524	5,211	110	18	43	10		313	6,229
Other European Union	619	7,514	90	130	81	78	1		8,513
United States	431	2,592	363	2,634	5	809	923	1,299	9,056
Africa	701	1,027	83	91	188	85	44		2,219
Rest of the World	612	2,465	154	191	1,278	148	44	21	4,913
Loans and advances to banks	2,887	18,809	800	3,064	1,595	1,130	1,012	1,633	30,930

Table 4: Interest rate sensitivity of loans and advances

	2007 Fixed rate	2007 Variable rate	2007 Total	2006 Fixed rate	2006 Variable rate	2006 Total
At 31st December	£m	£m	£m	£m	£m	£m
Banks	16,447	23,676	40,123	12,176	18,754	30,930
Customers	77,861	271,306	349,167	66,000	219,631	285,631

Table 5: Loans and advances to customers by industry

		IFRS			UK GAAP
	2007	2006	2005	2004[a]	2003
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**71,160**	45,954	43,102	25,132	9,872
Agriculture, forestry and fishing	**3,319**	3,997	3,785	2,345	2,115
Manufacturing	**16,974**	15,451	13,779	9,044	7,844
Construction	**5,423**	4,056	5,020	3,278	2,534
Property	**17,018**	16,528	16,325	8,992	6,728
Government	**2,036**	2,426	1,718		
Energy and water	**8,632**	6,810	6,891	3,709	3,150
Wholesale and retail, distribution and leisure	**17,768**	15,490	17,760	11,099	9,628
Transport	**6,258**	5,586	5,960	3,742	3,654
Postal and communication	**5,404**	2,180	1,313	834	698
Business and other services	**30,363**	26,999	22,529	23,223	13,913
Home loans [b]	**112,087**	94,635	87,003	79,164	72,318
Other personal	**41,535**	35,377	38,069	29,293	23,922
Overseas customers [c]					8,666
Finance lease receivables	**11,190**	10,142	9,088	6,938	5,877
Loans and advances to customers excluding reverse repurchase agreements	**349,167**	285,631	272,342	206,793	170,919
Reverse repurchase agreements	**n/a**	n/a	n/a	58,304	n/a
Trading business	**n/a**	n/a	n/a	n/a	58,961
Loans and advances to customers	**349,167**	285,631	272,342	265,097	229,880

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.

c Overseas customers are now classified as part of other industry segments.

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Table 6: Loans and advances to customers in the UK

	IFRS				UK GAAP
	2007	2006	2005	2004[a]	2003
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**21,131**	14,011	11,958	8,774	7,721
Agriculture, forestry and fishing	**2,220**	2,307	2,409	1,963	1,766
Manufacturing	**9,388**	9,047	8,469	5,684	5,967
Construction	**3,542**	2,761	3,090	2,285	1,883
Property	**10,203**	10,010	10,547	7,912	6,341
Government	**201**	6	6		
Energy and water	**2,203**	2,360	2,701	802	1,286
Wholesale and retail distribution and leisure	**13,800**	12,951	12,747	9,356	8,886
Transport	**3,185**	2,745	2,797	1,822	2,579
Postal and communication	**1,416**	899	455	440	476
Business and other services	**20,485**	19,260	15,397	13,439	12,030
Home loans[b]	**71,755**	64,150	58,730	61,348	61,905
Other personal	**26,810**	26,088	29,250	26,872	21,905
Overseas customers[c]					5,477
Finance lease receivables	**4,008**	3,923	5,203	5,551	5,587
Loans and advances to customers in the UK	**190,347**	170,518	163,759	146,248	143,809

The category other personal now includes credit cards, personal loans, second liens and personal overdrafts.

The industry classifications in Tables 5-9 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

	IFRS				UK GAAP
	2007	2006	2005	2004[a]	2003
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**7,585**	5,629	3,982	2,419	1,205
Agriculture, forestry and fishing	**141**	786	155	280	147
Manufacturing	**4,175**	3,147	2,254	2,021	1,275
Construction	**1,159**	639	803	716	609
Property	**2,510**	2,162	3,299	344	346
Government		6			
Energy and water	**2,425**	2,050	1,490	940	409
Wholesale and retail distribution and leisure	**1,719**	776	952	810	426
Transport	**1,933**	1,465	1,695	640	566
Postal and communication	**662**	580	432	111	40
Business and other services	**3,801**	2,343	3,594	3,795	1,251
Home loans[b]	**24,115**	18,616	16,488	11,828	10,334
Other personal	**3,905**	3,672	1,909	1,369	1,769
Overseas customers[c]					438

Finance lease receivables	**2,403**	1,559	1,870	937	212
Loans and advances to customers in other European Union countries	**56,533**	43,430	38,923	26,210	19,027

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.

c Overseas customers are now classified as part of other industry segments.

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Table 8: Loans and advances to customers in the United States

	IFRS				UK GAAP
				2004[a]	
	2007	2006	2005		2003
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**29,342**	17,516	16,229	9,942	919
Agriculture, forestry and fishing	**2**	2	1		1
Manufacturing	**818**	519	937	388	341
Construction	**18**	13	32	139	2
Property	**568**	1,714	329	394	1
Government					