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## Registered and Head office:

1 Churchill Place  
London E14 5HP  
Tel: +44 (0)20 7116 1000

In this document the terms 'Bank' and 'Company' refer to Barclays Bank PLC and the terms 'Barclays' and 'Group' refer to Barclays Bank PLC and its subsidiaries.

The information in the notes to the accounts relates to the Group unless stated otherwise.

## Delivering our strategy

**Our strategy is to achieve good growth through time by diversifying our business base and increasing our presence in markets and segments that are growing rapidly.**

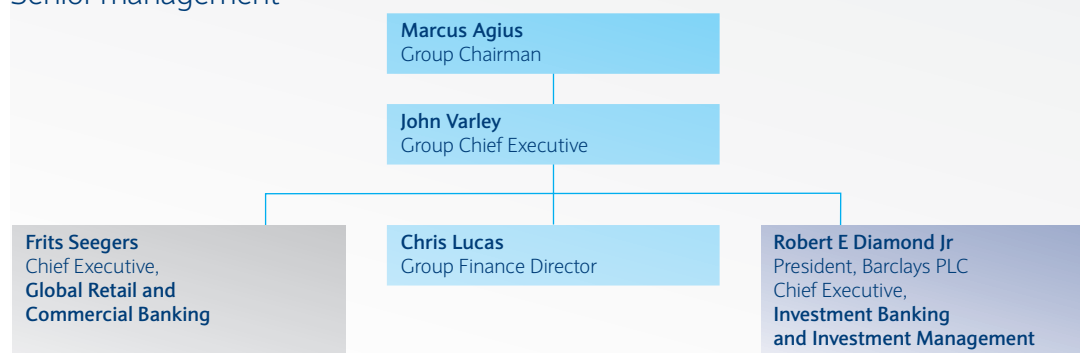
### Consistent strategic priorities:

- **Build the best bank in the UK**
- **Accelerate growth of global businesses**
- **Develop Retail and Commercial Banking activities in selected countries outside the UK**
- **Enhance operational excellence**

## Barclays in brief

Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, United States, Africa and Asia. With a strong long-term credit rating and over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs 156,000 people. Barclays moves, lends, invests and protects money for 48 million customers and clients worldwide.

### Senior management



### Global Retail and Commercial Banking

#### UK Retail Banking

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

Profit before tax

£1,369m

Number of customers

15.2m

#### Barclays Commercial Bank

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

Profit before tax

£1,266m

Number of customers

81,200

#### Barclaycard

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

Profit before tax

£789m

Number of customers

23.3m

#### GRCB – Western Europe

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

Profit before tax

£257m

Number of customers

2.1m

#### GRCB – Emerging Markets

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

Profit before tax

£134m

Number of customers

4.2m

**Group profit before tax was £6,035m, down 15% on 2007. Profit included:**

- Gains on acquisitions of £2,406m, including £2,262m relating to Lehman Brothers North American businesses
- Profit on disposal of the closed life assurance book of £326m
- Gains on Visa IPO and sales of shares in MasterCard of £291m
- Gross credit market losses and impairment of £8,053m
- Gains on own credit of £1,663m

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

- UK lending increased to both retail and corporate customers
- Strengthened international presence in Barclaycard, Western Europe and Emerging Markets

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

- Barclays Capital's strategy of diversification by geography and business accelerated through the acquisition of Lehman Brothers North American businesses
- There were strong net new asset flows into Barclays Wealth and Barclays Global Investors despite declines in equity markets

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

## Income statement highlights

For the year ended 31 st December

	2008 £m	2007 £m	2006 £m
Total income net of insurance claims	<b>23,069</b>	23,031	21,656
Impairment charges and other credit provisions	<b>(5,419)</b>	(2,795)	(2,154)
Operating expenses	<b>(14,362)</b>	(13,199)	(12,674)
Gains on acquisitions	<b>2,406</b>	–	–
Profit before tax	<b>6,035</b>	7,107	7,197
Profit attributable to equity holders	<b>4,846</b>	4,749	4,914

### Income

**£23,069m**

### Profit before tax

**£6,035m**

## Investment Banking and Investment Management

### GRCB – Absa

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

#### Profit before tax

**£552m**

#### Number of customers

**10.5m**

### Barclays Capital

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

#### Profit before tax

**£1,302m**

#### Number of clients generating more than £1 m income

**1,000+**

### Barclays Global Investors

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

#### Profit before tax

**£595m**

#### Assets under management

**\$1.5trn**

### Barclays Wealth

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

#### Profit before tax

**£671m**

#### Client assets

**£145bn**

## Key performance indicators

## Financial KPIs

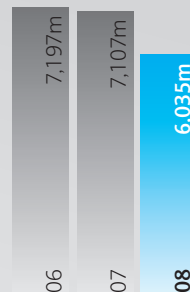
## Definition

**Profit before tax**

Profit before tax represents total income less impairment charges and operating expenses.

## Why it's important to the business and management

Profit before tax is a key indicator of financial performance to the majority of our stakeholders.

**Capital ratios**

Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank's capital as a percentage of its risk weighted assets. Total capital is defined by the UK Financial Services Authority (FSA).

We expect to maintain our total capital ratio at a level which significantly exceeds the current minimum requirements of the FSA for the duration of the current period of financial and economic stress.

The Group's capital management activities seek to maximise shareholders' value by optimising the level and mix of its capital resources.

The Group's capital management objectives are to:

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the UK FSA and the US Federal Reserve Bank's requirements that a financial holding company be 'well capitalised'
- Maintain sufficient capital resources to support the Group's Risk Appetite and economic capital requirements
- Support the Group's credit rating
- Ensure locally regulated subsidiaries can meet their minimum capital requirements

Total capital ratio<sup>a</sup>

2006	2007	2008
11.5%	11.0%	13.5%

<sup>a</sup> Capital ratios for 2008 and 2007 are calculated on a Basel II basis, whilst the 2006 ratio is on a Basel I basis.

## Strategic KPIs

## Build the best bank in the UK

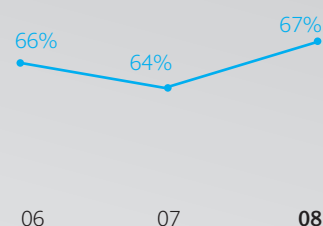
## Definition

**UK Retail Banking Customer Satisfaction**

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

## Why it's important to the business and management

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

**Net new lending in Barclays Commercial Bank**

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

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

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

**UK Retail Banking cost:income ratio target**

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

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

2006	2007	2008
58%	57%	56%



## Strategic KPIs

### Accelerate growth of global businesses

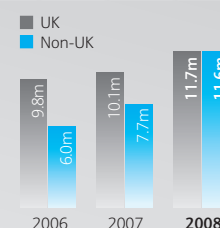
#### Definition

##### Barclaycard International – number of customers

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

#### Why it's important to the business and management

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



##### Investment Banking and Investment Management income

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

The Investment Banking and Investment Management division contains the majority of our global businesses and income is a key indicator of growth in this area. Including net credit market write-downs income in 2008 was £8,399m (2007: £10,332m). Excluding these write-downs income in 2008 was £11,593m (2007: £11,185m).

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

## Strategic KPIs

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

#### Definition

##### Number of distribution outlets outside the UK

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

#### Why it's important to the business and management

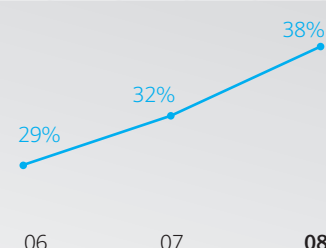
This represents the growth in our footprint around the world, providing a clear indication of the development of our activities outside the UK. The addition of new distribution outlets drives the increase in customer numbers.

2006	2007	2008
1,705	2,349	3,158

##### Proportion of Global Retail and Commercial Banking international income

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

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



## Key performance indicators

## Strategic KPIs

## Enhance operational excellence

## Definition

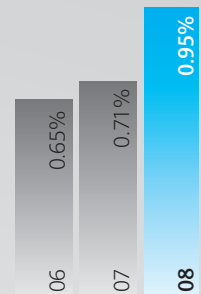
## Risk management

## Loan loss rate

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

## Why it's important to the business and management

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



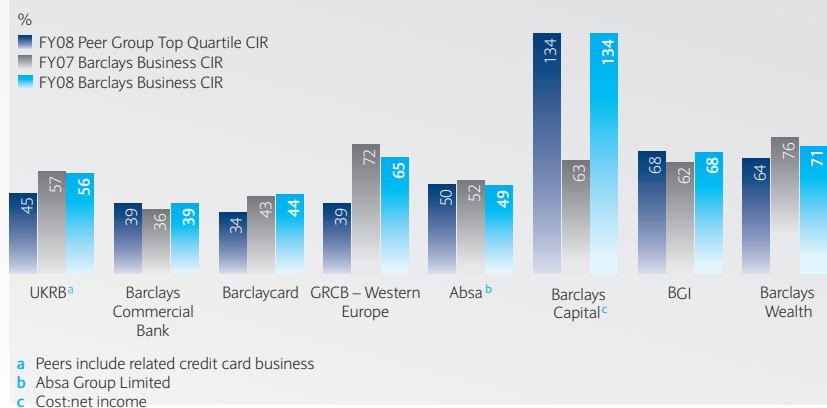
## Cost management

## cost:income ratio by business

## – productivity benchmarking

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

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





## Sustainability

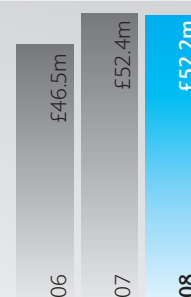
### Definition

#### Global investment in our communities

Barclays total contribution to supporting the communities where we operate.

### Why it's important to the business and management

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



## Our People

### Definition

#### Number of colleagues involved in fund-raising and volunteering initiatives

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

### Why it's important to the business and management

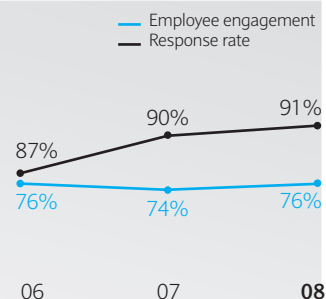
Barclays community investment programme aims to engage and support colleagues around the world to get involved with our main partnerships, as well as the local causes they care about. Harnessing their energy, time and skills delivers real benefit to local communities, to their own personal development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



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

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

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



### Group Performance

Barclays delivered profit before tax of £6,035m in 2008, a decline of 15% on 2007. The results included the following significant items:

- gains on acquisition of £2,406m, including £2,262m gain on acquisition of Lehman Brothers North American businesses
- profit on disposal of Barclays Closed UK Life assurance business of £326m
- gains on Visa IPO and sales of shares in MasterCard of £291m, distributed widely across the Group
- gross credit market losses and impairment of £8,053m, or £4,957m net of related income and hedges of £1,433m and gains on own credit of £1,663m

Profit after tax increased 2% to £5,249m. This reflected an effective tax rate of 13% (2007: 28%) primarily due to the gain on the acquisition of Lehman Brothers North American businesses of £2,262m, in part being offset by carried forward US tax losses attributable to Barclays businesses.

Income grew £38m to £23,069m. Income in Global Retail and Commercial Banking increased 17% and was particularly strong in businesses outside of the UK to which we have directed significant resource. Income in Investment Banking and Investment Management was down 19%. Barclays Capital was affected by very challenging market conditions in 2008, with income falling by £1,888m (27%) on 2007, reflecting gross losses of £6,290m relating to credit market assets, partially offset by gains of £1,663m on the fair valuation of notes issued by Barclays Capital due to widening of credit spreads and £1,433m in related income and hedges. Excluding credit market related losses, gains on own credit and related income and hedges, income in Barclays Capital increased 6%.

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

Operating expenses increased 9% to £14,362m. We continued to invest in our distribution network in the Global Retail and Commercial Banking businesses. Expenses fell in Barclays Capital due to lower performance related costs. Expenses in Barclays Global Investors included selective support of liquidity products of £263m (2007: £80m). Group gains from property disposals were £148m (2007: £267m). Head Office reflects £101m due to the cost of the contribution to the UK Financial Services Compensation Scheme. Underlying cost growth was well controlled. The Group cost:income ratio deteriorated by five percentage points to 62%.

### Business Performance – Global Retail and Commercial Banking

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

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

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

Global Retail and Commercial Banking - Western Europe profit before tax grew 31% to £257m. Income grew 53%, driven by very strong growth in deposits, mortgages and commercial lending across the expanded franchise, as well as gains of £82m relating to the Visa IPO and the sale of MasterCard shares. Costs increased 38% reflecting the expansion of the network by 347 distribution points to 1,145 and continued strategic investment in the Premier and core retail businesses. Impairment charges increased £220m to £296m, largely driven by deteriorating trends in Spain which led to losses in property-related commercial banking exposures and credit cards.

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

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

inflation rates and increased customer indebtedness resulting in higher delinquency levels in the retail portfolios.

#### Business Performance – Investment Banking and Investment Management

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

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

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

#### Business Performance – Head Office Functions and Other Operations

Head Office Functions and Other Operations loss before tax increased £503m to £900m. The increased loss reflects within income an increase in costs in central funding activity due to money market dislocation in particular LIBOR resets and fair value movements on hedging derivatives. Costs reflect the £101m cost of Barclays contribution to the UK Financial Services Compensation scheme, increased fees paid to Barclays Capital for debt and equity raising and increased costs related to an internal review of Barclays compliance with US economic sanctions.

#### Balance Sheet and Capital Management

##### Shareholders' Equity

We increased shareholders' equity, excluding minority interests, nearly 38% from £30bn at the end of 2007 to £41bn at the end of 2008.

##### Balance Sheet

Our total assets increased £825bn to £2,053bn in 2008. Of this increase, £737bn was attributable to an increase in derivative assets and £124bn was attributable to increased loans and advances. All other assets declined

by £36bn.

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

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

#### Foreign Currency Translation

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

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

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

#### Liquidity

Barclays has maintained a strong liquidity profile in 2008, sufficient to absorb the impact of a stressed funding environment. We have access to a substantial pool of liquidity both in secured markets and from unsecured depositors including numerous foreign governments and central banks. In addition our limited reliance on securitisations as a source of funding has meant that the uncertainty in securitisation markets has not impacted our liquidity risk profile.

Whilst funding markets have been extremely difficult in the past six months, and particularly since September 2008, Barclays has been able to increase available liquidity, extend the term of unsecured liabilities, and reduce reliance on unsecured funding. Barclays has participated in various government and central bank liquidity facilities, both to aid central banks implementation of monetary policy and support central bank initiatives, where participation has enabled the lengthening of the term of our refinancing. These facilities have improved access to term funding, and helped moderate money market rates.

For the Group, loans and advances to customers and banks are more than covered by the combination of customer deposits and longer term debt at 112% at 31st December 2008 (2007: 126%).

## Principal risks and uncertainties

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

### Business conditions and general economy

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

- the current economic downturn or significantly higher interest rates or continued lack of credit availability to the Group's customers could adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the Group's customers and counterparties would be unable to meet their obligations;
- a market downturn or further worsening of the economy could cause the Group to incur further mark to market losses in its trading portfolios;
- a further decline in the value of Sterling relative to other currencies could increase risk weighted assets and therefore the capital requirements of the Group;
- a further market downturn could reduce the fees the Group earns for managing assets. For example, a downturn in trading markets could affect the flows of assets under management; and
- a further market downturn would be likely to lead to a decline in the volume of transactions that the Group executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions and interest.

### Current market volatility and recent market developments

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

While the capital and credit markets have been experiencing difficulties for some time, the volatility and disruption reached unprecedented levels in the final months of 2008 and economic activity started to contract in many of the economies in which the Group operates. These conditions have produced downward pressure on stock prices and

credit capacity for certain issuers. The resulting lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could continue to materially and adversely affect the Group's business, financial condition and results of operations.

#### **Credit risk**

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

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

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

The Group's credit risk governance structure, management and measurement methodologies, together with an analysis of exposures to credit risk is detailed in the 'Credit Risk' note to the financial statements on page 109.

#### **Market risk**

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. Market risk has increased due to the volatility of the current financial markets. The main market risk arises from trading activities. Barclays is also exposed to market risk through non-traded interest rate risk and the pension fund.

The Group's market risk governance structure, management and measurement methodologies, together with an analysis of exposures to both traded and non-traded market risk is detailed in the 'Market Risk' note to the financial statements on page 104. Pension risk is analysed in Note 30 on page 67.

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

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

#### **Liquidity risk**

This is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. This risk is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters. The Group's liquidity risk management has several components:

- intra-day monitoring to maintain sufficient liquidity to meet all settlement obligations;
- mismatch limits to control expected cash flows from maturing assets and liabilities;
- monitoring of undrawn lending commitments, overdrafts and contingent liabilities; and
- diversification of liquidity sources by geography and provider.

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

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

The Group's liquidity risk management and measurement methodologies are detailed in the 'Liquidity Risk' note to the financial statements on page 133.



## Principal risks and uncertainties

### Capital risk

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

- meet minimum regulatory capital requirements in the UK and in other jurisdictions such as the United States and South Africa where regulated activities are undertaken. The Group's authority to operate as a bank is dependent upon the maintenance of adequate capital resources;
- support its credit rating. A weaker credit rating would increase the Group's cost of funds;
- support its growth and strategic options.

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

### Operational risk

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

### Financial crime risk

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

### Regulatory compliance risk

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

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

rigorous regulatory climate will impact financial institutions, including the Group.

Areas where changes could have an impact include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to customer deposits and the terms attaching to those guarantees; and
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes.

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

#### Banking Act 2009

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

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or Bank of England entity, all or some of the securities issued by a bank. The share transfer order can extend to a wide range of 'securities' including shares and bonds issued by a UK Bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached. Power also exists to over-ride any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of both share transfer orders and property appropriation. In the case of share transfer orders any compensation will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer.

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



### Financial Services Compensation Scheme

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

Further details of specific matters that impact the Group are included in the 'Competition and regulatory matters' note to the financial statements on page 83.

### 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.

Further details of the Group's legal proceedings are included in the 'Legal proceedings' note to the financial statements on page 82.

### Insurance risk

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

Further details of the Group's insurance assets and liabilities, including a sensitivity analysis of insurance contract liabilities, are included in the 'Insurance assets and liabilities' note to the financial statements on page 58.

### Business risk

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

### Competition

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

### Tax risk

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

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

- tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Executive Committee, Group Finance Director and the Board Risk Committee;
- the tax charge is also reviewed by the Board Audit Committee;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the Group takes appropriate advice from reputable professional firms;
- the Group employs high-quality tax professionals and provides ongoing technical training;
- the tax professionals understand and work closely with the different areas of the business;
- the Group uses effective, well-documented and controlled processes to ensure compliance with tax disclosure and filing obligations; and
- where disputes arise with tax authorities with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving the matter with the tax authority in an open and constructive manner.

This Annual Report does not contain detailed disclosures reflecting the impact of the market turmoil as recommended by the Financial Stability Forum in its report on 'Enhancing Market and Institutional Resilience' published in April 2008 and the Committee of European Banking Supervisors in its report on 'Banks' Transparency on Activities and Products affected by the Recent Market Turmoil' published in June 2008. Disclosure on credit market exposures held by Barclays Capital are contained in the Barclays PLC Annual Report and Accounts for the year ended 31 st December 2008. The data presented in the Barclays PLC Annual Report and Accounts relating to credit market exposures is identical to that reportable for the Group.

## Supervision and regulation

The Group's operations, including its overseas offices, subsidiaries and associates, are subject to a significant body of rules and regulations that are a condition for authorisation to conduct banking and financial services business and constrain business operations. These include reserve and reporting requirements and conduct of business regulations. These requirements are imposed by the relevant central banks and regulatory authorities that supervise the Group in the jurisdictions in which it operates. The requirements reflect global standards developed by, among others, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. They also reflect requirements derived from EU directives.

In the UK, the FSA is the independent body responsible for the regulation of deposit taking, life insurance, home mortgages, general insurance and investment business. Barclays Bank PLC is authorised by the FSA to carry on a range of regulated activities within the UK and is subject to consolidated supervision by the FSA. In its role as supervisor, the FSA seeks to ensure the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers. The FSA's continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

The FSA adopts a risk-based approach to supervision. The starting point for supervision of all financial institutions is a systematic analysis of the risk profile for each authorised firm. The FSA has adopted a homogeneous risk, processes and resourcing model in its approach to its supervisory responsibilities (known as the ARROW model) and the results of the risk assessment are used by the FSA to develop a risk mitigation programme for a firm. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities, liquidity and rules of business conduct.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme) where an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in Sterling or other EEA currencies (including the Euro) are covered by the Scheme. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state.

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain, Switzerland, Portugal and Italy (local central banks and other regulatory

authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Financial Services Agency of Japan, the Australian Securities and Investments Commission, the Monetary Authority of Singapore, the China Banking Regulatory Commission and the Reserve Bank of India); Africa and the Middle East (various regulatory authorities including the South African Reserve Bank and the Financial Services Board and the regulatory authorities of the United Arab Emirates) and the United States of America (including the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Securities and Exchange Commission).

In Europe, the UK regulatory agenda is considerably shaped and influenced by the directives emanating from the EU. These form part of the European Single Market programme, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one EU member state to conduct banking or investment business through the establishment of branches or by the provision of services on a cross-border basis in other member states without the need for local authorisation. Barclays operations in Europe are authorised and regulated by a combination of both home (the FSA) and host regulators.

Barclays operations in South Africa, including Absa Group Limited, are supervised and regulated by the South African Reserve Bank (SARB) and the Financial Services Board (FSB). SARB oversees the banking industry and follows a risk-based approach to supervision whilst the FSB oversees the non-banking financial services industry and focuses on enhancing consumer protection and regulating market conduct.

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US banking subsidiaries are subject to a comprehensive regulatory structure involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended (BHC Act), the Foreign Bank Supervision Enhancement Act of 1991 and the USA PATRIOT Act of 2001. Such laws impose restrictions on the activities of Barclays, including its US banking subsidiaries and the Bank's US branches, as well as prudential restrictions, such as limits on extensions of credit by the Bank's US branches and the US banking subsidiaries to affiliates. The Bank's New York and Florida branches are subject to extensive federal and state supervision and regulation by the FRB and the New York and Florida banking supervisors. Barclays Global Investors, NA, a federally chartered trust company, is subject to supervision and regulation by the OCC, and Barclays Bank Delaware, a Delaware-chartered commercial bank, is subject to supervision and regulation by the Delaware banking supervisor and the Federal Deposit Insurance Corporation (FDIC). Only the deposits of Barclays Bank Delaware are insured by the FDIC.

Barclays PLC, Barclays Bank PLC and Barclays Group US Inc. are bank holding companies registered with the FRB. Each has elected to be treated

as a financial holding company under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to banking organisations that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain the financial holding company status of each of Barclays PLC, Barclays Bank PLC and Barclays Group US Inc., Barclays Bank PLC is required to meet or exceed certain capital ratios and to be deemed to be 'well managed', and Barclays Bank Delaware and Barclays Global Investors, NA must also meet certain capital requirements, be deemed to be 'well managed' and must have at least a 'satisfactory' rating under the Community Reinvestment Act of 1977.

Barclays investment banking operations are subject to ongoing supervision and regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations as part of a comprehensive scheme of regulation of all aspects of the securities business under the US federal securities laws.

Barclays subsidiaries in the US are also subject to regulation by applicable federal and state regulators of their activities in the asset management, investment advisory, mutual fund and mortgage lending businesses. The US operations and subsidiaries of Barclays are subject to extensive laws and regulations designed to combat money laundering and terrorist financing and to enforce compliance with US economic sanctions.

### Regulatory Developments

In the wake of the financial crisis there will be regulatory change that will have a substantial impact on all financial institutions, including the Group. The full extent of this impact is not yet clear. Programmes to reform the global regulatory framework were agreed first by G8 Finance Ministers in April 2008 and subsequently by G20 Heads of Government in November 2008. In the EU, Finance Ministers agreed a roadmap for regulatory reform in May 2008. There is a substantial degree of commonality to these programmes covering issues of capital and liquidity regulation, risk management and accounting standards. These programmes will be further developed and implemented in 2009.

In the UK, in response to the financial crisis, the Chairman of the FSA has been requested by the Chancellor of the Exchequer to undertake a review of banking regulation. The Chancellor has indicated that he will be presenting a White Paper on the supervision of banking in spring 2009 with the expectation that proposals for legislation will be presented to Parliament. He has also commissioned Sir David Walker to review the corporate governance of the UK banking industry. The results of this review are expected before the end of 2009. The FSA has re-examined its regulatory requirements and processes, substantially increasing regulatory capital requirements in October 2008. It has also been undertaking a Supervisory Enhancement Programme that will increase both the resources devoted to supervision and the intensity of supervision.

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

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or Bank of England entity, all or some of the securities issued by a bank. The share transfer order can extend to a wide range of 'securities' including shares and bonds issued by a UK Bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached. Power also exists to override any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of both share transfer orders and property appropriation. In the case of share transfer orders any compensation will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer.

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

Amendments are being made to the EU framework of directives, including to the Capital Requirements Directive and to the Directive on Deposit Guarantee Schemes. Further amendments to EU regulatory requirements are likely as the EU develops its response to the financial crisis, including the structure of the regulatory system in Europe as proposed in the report of a high-level Commission group published on 25th February 2009.

In the United States, as elsewhere, recent market disruptions and economic conditions have led to numerous proposals for changes and significant increases in the regulation of the financial services industry. However, given the current environment and status of such proposals, it is difficult to determine the nature and form of any regulation that may arise in the United States from any such proposals.

### Sustainability and Barclays

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

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

### Developing our strategic framework

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

- Customers and Clients
- Inclusive Banking
- Diversity and Our People
- Environment
- Responsible Global Citizenship

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

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

- our research initiatives and partnerships
- dialogue with our stakeholders including customers, investors governments, non-governmental organisations, consumer groups, and journalists across our markets globally
- internal and external focus groups including hosting consumer roundtables in the UK.

Stakeholder insight and feedback on our sustainability agenda is vital, and encourages us to be open and transparent about the issues our stakeholders are concerned about.

### Measuring progress

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

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

### Customers and clients

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

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

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

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

### Inclusive banking

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

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

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

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

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

### Diversity and Our People

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

Barclays Capital has traded more than 1 billion tonnes of carbon credits with a notional value of over £20bn

1bn

51° 30' 21" N  
London, UK 12pm GMT

£52.2m invested in our communities globally

£52.2m

19° 01' 04" N  
Mumbai 5.30pm IST

Over 57,000 employees received direct support for fundraising, volunteering and giving in 31 countries

57,000

1° 16' 28" S  
Nairobi 3pm EAT

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

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

### Environment

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

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

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

The targets are to reduce:

- CO<sub>2</sub> emissions by 6% per employee, achieving an average 2% reduction per year
- energy use from buildings (excluding data centres) by 6% per employee, achieving an average 2% reduction per year
- water use by 6% per employee, achieving an average 2% reduction per year.

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

### Environmental and social risk

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

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

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

### Responsible global citizenship

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

### Community investment

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

### Human Rights and Barclays

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

- Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- International Labour Organisation's Core Conventions.

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

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

### Supply chain

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

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

31 project finance deals were assessed against the Equator Principles

31

40° 25' 00" N  
Madrid 1pm CET

More than 730,000 basic Cash Card Accounts held in the UK

730,000+

53° 47' 59" N  
Leeds, UK 12pm GMT



## Our people

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

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

- i) Winning together – Doing what's right for Barclays, our teams and our colleagues, to achieve collective and individual success.
- ii) Best people – Developing and upgrading talented colleagues and differentiating rewards  
– Doing what's needed to ensure a leading position in the global financial services industry.
- iii) Customer and client focus – Understanding what our customers and clients want and need  
– And then serving them brilliantly.
- iv) Pioneering – Driving new ideas, especially those that make us profitable and improve control  
– Improving operational excellence  
– Adding diverse skills to stimulate new perspectives and bold steps
- v) Trusted – Being trusted is the bedrock of a successful bank  
– Acting with the highest levels of integrity to retain the trust of our customers, external stakeholders and our colleagues  
– Taking full responsibility for our decisions and actions.

### Global governance

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

### Employee relations

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

### Our employee opinion surveys

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

### Occupational health and safety

Barclays manages health and safety at a local level under the requirements of the health and safety governance framework.

Key data on health and safety is reported regularly to the Board HR and Remuneration Committee.

### Training and educating our people

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

An international picture		
	2008	2007 <sup>a</sup>
<b>FTE by world region</b>		
UK	60,700	61,900
Africa and Middle East	55,700	51,748
Continental Europe	13,400	9,750
Americas	15,700	6,413
Asia Pacific	10,800	5,089
Total	156,300	134,900
<b>FTE by business unit</b>		
UK Retail Banking	30,400	30,700
Barclays Commercial Bank	9,800	9,200
Barclaycard	9,600	8,900
GRCB – Western Europe	10,900	8,800
GRCB – Emerging Markets	22,700	13,900
GRCB – Absa	36,800	35,800
Barclays Capital	23,100	16,200
Barclays Global Investors	3,700	3,400
Barclays Wealth	7,900	6,900
Head office and other operations	1,400	1,100
Total	156,300	134,900
<b>Global employment statistics</b>		
FTE	156,300	134,900
Total employee headcount	161,000	141,885
Percentage of female employees	53.1%	56.3%
Percentage of female senior executives	15.2%	13.7%
Percentage of female senior managers	24.6%	20.6%
Percentage working part time	8.5%	12.4%
Turnover rate	20.9%	18.3%
Resignation rate	12.1%	12.3%
Sickness absence rate <sup>b</sup>	2.3%	3.0%

#### Note

<sup>a</sup> 2007 UK data – includes 1,000 BGI employees.

<sup>b</sup> Excludes Group Centre, BGI and Barclays Capital.

<sup>c</sup> Excludes BGI and Barclays Capital.

<sup>d</sup> Excludes BGI.

UK employees		
	2008	2007 <sup>a</sup>
<b>UK employment statistics</b>		
Total employee headcount	60,700	61,900
Average length of service (years)	9.2	9.7
Percentage working part time	16.1%	16.8%
Sickness absence rate <sup>c</sup>	3.1%	3.0%
Turnover rate	19.3%	16.6%
Resignation rate	12.2%	11.1%
<b>Women in Barclays</b>		
Percentage of all employees	56.1%	58.0%
Percentage of management grades	28.0%	28.4%
Percentage of senior executives	14.6%	13.0%
<b>Ethnic minorities in Barclays</b>		
Percentage of all employees	12.3%	12.3%
Percentage of management grades	11.5%	10.0%
Percentage of senior executives	8.0%	6.6%
<b>Disabled employees in Barclays</b>		
Percentage of all employees <sup>d</sup>	2.0%	3.4%
<b>Age profile</b>		
Employees under 25	15.5%	16.5%
Employees aged 25-29	18.5%	17.0%
Employees aged 30-49	55.8%	54.2%
Employees aged 50+	10.2%	10.3%
<b>Pensions</b>		
Barclays UK Retirement Fund active members	58,316	53,473
Current pensioners	50,499	48,607



## Business Review and Principal Activities

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 st December 2008 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company).

The information that fulfils the requirements of the Business Review can be found on pages 2 to 18 and is incorporated into this report by reference.

From the perspective of the Bank, the review of the business and the principal risks and uncertainties facing the Company are integrated with those of Barclays PLC, the Bank's ultimate parent. Therefore additional information may be found in the 2008 Annual Report of Barclays PLC, which does not form part of this report.

Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Barclays operates through branches, offices and subsidiaries in the UK and overseas.

The results of the Group show a pre-tax profit of £6,035m (2007: £7,107m) for the year and profit after tax of £5,249m (2007: £5,126m). The Group had net assets of £43,574m at 31 st December 2008 (2007: £31,821m).

## Profit Attributable

The profit attributable to Barclays PLC, the Bank's parent, for the year 2008 amounted to £4,344m (2007: £4,448m).

## Dividends

Total dividends on ordinary shares paid during 2008 are set out in Note 1 to the accounts.

Dividends paid on preference shares for the year ended 31 st December 2008 amounted to £390m (2007: £193m).

## Share Capital

On 8th April 2008, the authorised share capital of the Company was increased by the creation of a further 150,000,000 Dollar preference shares of US\$0.25 each.

Ordinary share capital was increased during the year by the issue to Barclays PLC of 1,010,000 ordinary shares, credited as fully paid, in consideration of cash payments of £15,510,000. Barclays PLC owns 100% of the issued ordinary shares.

Preference share capital was increased in the year by the issue of 106,000,000 US\$0.25 Preference Shares.

## Annual Report on Form 20-F

An Annual Report on Form 20-F is being filed with the US Securities and Exchange Commission (SEC) and copies will be available from one of the Joint Secretaries on request to the Head office at 1 Churchill Place, London E14 5HP. It is possible to read and copy documents that have been filed by Barclays PLC and Barclays Bank PLC with the SEC at the SEC's office of Investor Education and assistance located at 100 F Street, NE, Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. Filings with the SEC are also available to the public from commercial document retrieval services, and from the website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

## Directors

The Directors of the Bank are listed on page 21. The Directors' interests in shares are set out in Note 43 of Barclays PLC's Annual Report and Accounts. The membership of the Boards of the Bank and of Barclays PLC is identical.

Patience Wheatcroft and Sir Michael Rake were appointed as non-executive Directors with effect from 1 st January 2008. Simon Fraser will join the Board as a non-executive Director with effect from 10th March 2009, subject to regulatory approvals. Dr Danie Cronjé left the Board on 24th April 2008 and Gary Hoffman left the Board on 31 st August 2008.

## Directors' Indemnities

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 st December 2008 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

## Community Involvement and Charitable Donations

Barclays has an extensive community programme covering many countries around the world. The Group provides funding and support to over 7,000 charities and voluntary organisations, ranging from small, local charities, like Passage (UK), to international organisations like the Red Cross. We also have a very successful employee programme which in 2008 saw more than 57,000 employees and pensioners worldwide taking part in Barclays-supported volunteering, giving and fundraising activities. Further information on our community involvement is given on pages 16 and 17.

The total commitment for 2008 was £52.2m (2007: £52.4m). The Group committed £27.7m in support of the community in the UK (2007: £38.9m) and £24.5m was committed in international support (2007: £13.5m). The UK commitment includes £19.6m of charitable donations (2007: £30.4m).

## Employee Involvement

Barclays is committed to ensuring that employees share in the success of the Group. Staff are encouraged to participate in share option and share purchase schemes and have a substantial sum invested in the shares of Barclays PLC.

Employees are kept informed of matters of concern to them in a variety of ways, including the corporate news magazines, intranets, briefings and mobile phone SMS messaging. These communications help achieve a common awareness among employees of the financial and economic factors affecting the performance of Barclays.

Barclays is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. An annual Employee Opinion Survey is undertaken across Global Retail and Commercial Banking and Group Centre with results being reported to the Board and the Board HR and Remuneration Committee, all employees and to our European Works Council, Africa Forum, Unite (Amicus section), our recognised union in the UK and other recognised unions worldwide. Roadshows and employee forums also take place.

In addition, Barclays undertakes regular and formal consultations with our recognised trade unions and works councils internationally.

## Diversity and Inclusion

The diversity agenda at Barclays seeks to include customers, colleagues and suppliers. Our objective is to recruit and retain the best people, regardless of (but not limited to) race, religion, age, gender, sexual orientation or disability. We strive to ensure our workforce reflects the communities in which we operate and the international nature of the organisation. We recognise that diversity is a key part of responsible business strategy in support of our increasingly global business.

Barclays is committed to providing additional support to employees with disabilities and making it easier for them to inform us of their specific requirements, including the introduction of a dedicated intranet site and disability helpline. Through our Reasonable Adjustments Scheme, appropriate assistance can be given, including both physical workplace adjustments, and relevant training and access to trained mentors is also provided for disabled employees. A wide range of recruitment initiatives have been taken to increase the number of people with disabilities working in Barclays.

## Creditors' Payment Policy

Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, in a timely manner. It is the Group's practice to agree terms with suppliers when entering into contracts. We negotiate with suppliers on an individual basis and meet our obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Paragraph 12(3) of Schedule 7 of the Companies Act 1985 requires disclosure of trade creditor payment days. The Company's accounts are prepared in accordance with International Financial Reporting Standards. The components for the trade creditor calculation are not easily identified. However, by identifying as closely as possible the components that would be required if Schedule 4 of the Companies Act 1985 applied, the trade creditor payment days for the Company for 2008 were 24 days (2007: 27 days). This is an arithmetical calculation and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

## Essential business contracts

There are no persons with whom the Group has contractual or other arrangements that are considered essential to the business of the Group.

## Financial Instruments

Barclays financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out in Note 13 and in Notes 46 to 49 to the accounts.

## Events after the Balance Sheet Date

On 2nd February 2009, Barclays completed the acquisition of PT Bank Akita, which was announced initially on 17th September 2008, following the approval of the Central Bank of Indonesia. On 17th February 2009, Barclays announced that Barclays Capital will discontinue operations at its EquiFirst subsidiary due to the market environment and strategic direction of the Group.

## The Auditors

The Board Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Group, including monitoring the Group's use of the Group's auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found on pages 40 and 41 and Note 9 to the accounts. Having reviewed the independence and effectiveness of the external auditors, the Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have signified their willingness to continue in office and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2009 AGM.

So far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, 'relevant audit information' means information needed by the Company's auditors in connection with preparing their report.

By order of the Board



**Lawrence Dickinson**

Joint Secretary  
5th March 2009

# Directors and Officers and Statement of Directors' responsibilities for accounts

## Current Directors and Officers

**Marcus Agius** – Group Chairman

### Executive Directors

**John Varley** – Group Chief Executive

**Robert E Diamond Jr** – President, Barclays PLC and Chief Executive, Investment Banking and Investment Management

**Chris Lucas** – Group Finance Director

**Frits Seegers** – Chief Executive, Global Retail and Commercial Banking

### Non-executive Directors

**Sir Nigel Rudd, DL** – Deputy Chairman

**David Booth**

**Sir Richard Broadbent**

**Richard Leigh Clifford, AO**

**Fulvio Conti**

**Professor Dame Sandra Dawson**

**Simon Fraser** (from 10th March 2009, subject to regulatory approvals)

**Sir Andrew Likierman**

**Sir Michael Rake**

**Stephen Russell**

**Sir John Sunderland**

**Patience Wheatcroft**

Current Executive Committee members		Appointed to Executive Committee
John Varley	Group Chief Executive	1996
Robert E Diamond Jr	President, Barclays PLC, Chief Executive, Investment Banking and Investment Management	1997
Chris Lucas	Group Finance Director	2007
Frits Seegers	Chief Executive, Global Retail and Commercial Banking	2006
Other Officers		Appointed to position
Peter Estlin	Group Financial Controller	2008
Lawrence Dickinson	Joint Secretary	2002
Patrick Gonsalves	Joint Secretary	2002
Mark Harding	Group General Counsel	2003
Robert Le Blanc	Group Risk Director	2004

## Statement of Directors' Responsibilities for Accounts

### Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Business Review.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern.

The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

### Statement of Directors' Responsibilities for Accounts

The following statement, which should be read in conjunction with the Auditors' report set out on page 22, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year and, with regards to Group accounts, in accordance with Article 4 of the IAS Regulation. The Directors have prepared individual accounts in accordance with IFRS as adopted by the European Union. The accounts are required by law and IFRS to present fairly the financial position of the Company and the Group and the performance for that period. The Companies Act 1985 provides in relation to such accounts, that references in the relevant part of the law to accounts giving a true and fair view are references, to their achieving fair presentation.

The Directors consider that, in preparing the accounts on pages 23 to 155, the Group has used appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm to the best of their knowledge that:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole; and
- The management report includes a fair view of the development and performance of the business and the position of Barclays Bank PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board



**Marcus Agius**  
Group Chairman  
5th March 2009

## Independent Auditors' Report to the Members of Barclays Bank PLC

We have audited the Group and Parent company financial statements (the 'financial statements') of Barclays Bank PLC for the year ended 31st December 2008 which comprise the Group income statement, the Group and Parent company balance sheets, the Group and Parent company statements of recognised income and expense, the Group and Parent company cash flow statements, the accounting policies and the related notes on pages 33 to 155. These financial statements have been prepared under the accounting policies set out therein on pages 23 to 32.

### Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities for Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Financial Review that is cross referred from the Directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Business review and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31st December 2008 and of its profit and cash flows for the year then ended;
- the Parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent company's affairs as at 31st December 2008 and of its cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

**PRICEWATERHOUSECOOPERS** 

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London, United Kingdom  
5th March 2009

### Notes

- a** The maintenance and integrity of the Barclays Bank PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b** Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated accounts Barclays Bank PLC

## Accounting policies

### Significant accounting policies

#### 1. Reporting entity

These financial statements are prepared for the Barclays Bank PLC Group ('Barclays' or 'the Group') under Section 227(2) of the Companies Act 1985. The Group is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. In addition, individual financial statements have been prepared for the holding company, Barclays Bank PLC ('the Bank'), under Section 226(2)(b) of the Companies Act 1985.

Barclays Bank PLC is a public limited company, incorporated in Great Britain and having a registered office in England.

#### 2. Compliance with International Financial Reporting Standards

The consolidated financial statements of the Barclays Bank PLC Group, and the individual financial statements of Barclays Bank PLC, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRSs and IFRIC interpretations as adopted by the European Union.

The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below. These policies have been consistently applied.

#### 3. Basis of preparation

The consolidated and individual financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments and contracts to buy or sell non-financial items and trading inventories to the extent required or permitted under accounting standards and as set out in the relevant accounting policies. They are stated in millions of pounds Sterling (£m), the currency of the country in which Barclays Bank PLC is incorporated.

#### Critical accounting estimates

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements such as fair value of financial instruments (Note 50), allowance for loan impairment (Note 48), goodwill (Note 21), intangible assets (Note 22), and retirement benefit obligations (Note 30).

#### 4. Consolidation

##### Subsidiaries

The consolidated financial statements combine the financial statements of Barclays Bank PLC and all its subsidiaries, including certain special purpose entities (SPEs) where appropriate, made up to 31st December. Entities qualify as subsidiaries where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity. Details of the principal subsidiaries are given in Note 42.

SPEs are consolidated when the substance of the relationship between the Group and that 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 assessment of risks and benefits is based on arrangements in place and the assessed risk exposures at that time. The initial assessment is reconsidered at a later date if:

- the Group acquires additional interests in the entity;
- the contractual arrangements of the entity are amended such that the relative exposure to risks and benefits change; or
- if the Group acquires control over the main operating and financial decisions of the entity

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus any costs directly related to the acquisition.

The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. See accounting policy 14 for the accounting policy for goodwill. A gain on acquisition is recognised in profit or loss if there is an excess of the Group's share of the fair value of the identifiable net assets acquired over the cost of the acquisition. Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

As the consolidated financial statements include partnerships where a Group member is a partner, advantage has been taken of the exemption of Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 with regard to the preparation and filing of individual partnership financial statements.

#### Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the Group holding in excess of 20%, but no more than 50%, of the voting rights.

A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, though not necessarily, through entities which are subject to joint control.

Unless designated as at fair value through profit and loss as set out in policy 7, the Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition profit (or loss), or other movements reflected directly in the equity of the associated or jointly controlled entity. Goodwill arising on the acquisition of an associate or joint venture is included in the carrying amount of the investment (net of any accumulated impairment loss). When the Group's share of losses in an associate or joint venture equals or exceeds the recorded interest, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

The Group's share of the results of associates and joint ventures is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group. Unrealised gains on transactions are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

In the individual financial statements, investments in subsidiaries, associates and joint ventures are stated at cost less impairment, if any.

#### 5. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement except for qualifying cash flow hedges or hedges of net investments. See policy 12 for the policies on hedge accounting.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equities classified as available for sale financial assets and non-monetary items are included directly in equity.

For the purposes of translation into the presentational currency, assets, liabilities and equity of foreign operations are translated at the closing rate, and items of income and expense are translated into Sterling at the rates prevailing on the dates of the transactions, or average rates of exchange where these approximate to actual rates.



# Consolidated accounts Barclays Bank PLC

## Accounting policies

The exchange differences arising on the translation of a foreign operation are included in cumulative translation reserves within shareholders' equity and included in the profit or loss on disposal or partial disposal of the operation.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are maintained in the functional currency of the foreign operation, translated at the closing rate and are included in hedges of net investments where appropriate.

On transition to IFRS, the Group brought forward a nil opening balance on the cumulative foreign currency translation adjustment arising from the retranslation of foreign operations, which is shown as a separate item in shareholders' equity.

### 6. Interest, fees and commissions

#### Interest

Interest is recognised in interest income and interest expense in the income statement for all interest bearing financial instruments classified as held to maturity, available for sale or other loans and receivables using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating effective interest, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

#### Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment.

#### Insurance premiums

Insurance premiums are recognised in the period earned.

#### Net trading income

Income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. Trading positions are held at fair value and the resulting gains and losses are included in the Income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

#### Dividends from subsidiaries

In the individual financial statements of Barclays Bank PLC, dividends from subsidiaries are recognised when the right to receive payment is established, which is when the dividends are received or when the dividends are appropriately authorised by the subsidiary.

### 7. Financial assets and liabilities

#### Financial assets

The Group classifies its financial assets in the following categories: financial instruments at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

#### Financial instruments at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are:

- acquired principally for the purposes of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

It is not possible to transfer a financial instrument out of this category whilst it is held or issued, with the exception of non-derivative financial assets held for trading which may be transferred out of this category from 1st July 2008 after initial classification where:

- in rare circumstances, it is no longer held for the purpose of selling or repurchasing in the near term, or
- it is no longer held for the purpose of trading, it would have met the definition of a loan and receivable on initial classification and the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

Regular way purchases and sales of financial instruments held for trading or designated under the fair value option are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. The fair value option is used in the following circumstances:

- financial assets backing insurance contracts and financial assets backing investment contracts are designated at fair value through profit or loss because the related liabilities have cash flows that are contractually based on the performance of the assets or the related liabilities are insurance contracts whose measurement incorporates current information. Fair valuing the assets through profit and loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available for sale;
- financial assets, loans to customers, financial liabilities, financial guarantees and structured notes may be designated at fair value through profit or loss if they contain substantive embedded derivatives;
- financial assets, loans to customers, financial liabilities, financial guarantees and structured notes may be designated at fair value through profit or loss where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost; and



- d) certain private equity and other investments that are managed, and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method (see accounting policy 6). They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Regular way purchases and sales of loans and receivables are recognised on contractual settlement.

#### Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method (see accounting policy 6). They are derecognised when the rights to receive cash flows have expired.

Regular way purchases of held to maturity financial assets are recognised on trade date, being the date on which the Group commits to purchase the asset.

#### Available for sale

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method (see accounting policy 6), impairment losses and translation differences on monetary items are recognised in the income statement. The assets are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Regular way purchases and sales of available for sale financial instruments are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

A financial asset classified as available for sale that would have met the definition of loans and receivables may only be transferred from the available for sale classification where the Group has the intention and the ability to hold the asset for the foreseeable future or until maturity.

#### Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement.

Profits or losses cannot be recognised on the initial recognition of embedded derivatives unless the host contract is also carried at fair value.

#### Loan commitments

Loan commitments, where the Group has a past practice of selling the resulting assets shortly after origination, are held at fair value through profit or loss. Other loan commitments are accounted for in accordance with policy 23.

#### Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are derecognised when extinguished.

#### Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, fair value is determined by reference to a quoted market price

for that instrument or by using a valuation model. Where the fair value is calculated by using valuation models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. For financial liabilities measured at fair value, the carrying amount is adjusted to reflect the effect on fair value of changes in own credit spreads by applying the appropriate Barclays credit default swap spreads. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters. However, where valuations include significant unobservable inputs, the transaction price is deemed to provide the best evidence of initial fair value for accounting purposes. As such, profits or losses are recognised upon trade inception only when such profits can be measured solely by reference to observable market data. For valuations that include significant unobservable inputs, the difference between the model valuation and the initial transaction price is recognised in profit or loss:

- on a straight-line basis over the term of the transaction, or over the period until all model inputs will become observable where appropriate or;
- released in full where previously unobservable inputs become observable.

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, 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 requires 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 or other analytical techniques.

#### 8. Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables or available for sale financial investments are impaired. These are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio;
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

# Consolidated accounts Barclays Bank PLC

## Accounting policies

For loans and receivables the Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the income statement.

Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised loan and receivable asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Equity securities acquired in exchange for loans in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities. Where control is obtained over an entity as a result of the transaction, the entity is consolidated. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business and not as an impairment of the original instrument.

In the case of available for sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement, increases in the fair value of equity shares after impairment are recognised directly in equity.

### 9. Sale and repurchase agreements (including stock borrowing and lending)

Securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the balance sheet when cash consideration is received.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans when cash consideration is paid, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

### 10. Securitisation transactions

Certain Group undertakings have issued debt securities or have entered into funding arrangements with lenders in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- substantially all the risks and rewards associated with the financial instruments have been transferred, in which case, the assets are derecognised in full; or
- if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where a) or b) above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

### 11. Collateral and netting

The Group enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

#### Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively except for funding costs relating to trading activities which are recorded in net trading income.

#### Netting

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross in the balance sheet.

## 12. Hedge accounting

Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid; or
- a forecast transaction is no longer deemed highly probable.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedging instrument. To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, the hedge is deemed to include ineffectiveness. The amount of ineffectiveness, provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

### Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship using the effective interest method.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

### Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in shareholders' equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

### Hedges of net investments

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation.

Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments although for a non-derivative liability only the foreign exchange risk is designated as a hedge.

### Derivatives that do not qualify for hedge accounting

Derivative contracts entered into as economic hedges that do not qualify for hedge accounting are held at fair value through profit or loss.

## 13. Property, plant and equipment

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The Group uses the following annual rates in calculating depreciation:

Freehold buildings and long-leasehold property (more than 50 years to run)	2-3.3%
Leasehold property (less than 50 years to run)	Over the remaining life of the lease
Costs of adaptation of freehold and leasehold property <sup>a</sup>	7-10%
Equipment installed in freehold and leasehold property <sup>a</sup>	7-10%
Computers and similar equipment	20-33%
Fixtures and fittings and other equipment	10-20%

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

When deciding on depreciation rates and methods, the principal factors the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

No depreciation is provided on freehold land, although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

## 14. Intangible assets

### Goodwill

Goodwill arises on the acquisition of subsidiary and associated entities and joint ventures, and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition.

For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill on acquisitions of associates and joint ventures is included in the amount of the investment. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

The carrying amount of goodwill in the UK GAAP balance sheet as at 31st December 2003 has been brought forward without adjustment on transition to IFRSs.

### Note

<sup>a</sup> Where leasehold property has a remaining useful life of less than 15 years, costs of adaptation and installed equipment are depreciated over the remaining life of the lease.

# Consolidated accounts Barclays Bank PLC

## Accounting policies

### Computer software

Computer software is stated at cost, less amortisation and provisions for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

Capitalised computer software is amortised over three to five years.

### Other intangible assets

Other intangible assets consist of brands, customer lists, licences and other contracts, core deposit intangibles, mortgage servicing rights and customer relationships. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method and the relief from royalty method that estimate net cash flows attributable to an asset over its economic life and discount to present value using an appropriate rate of return based on the cost of equity adjusted for risk.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

### 15. Impairment of property, plant and equipment and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of fixed assets and goodwill are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment on assets.

### 16. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date, in accordance with policy 23.

Any increase in the liability relating to guarantees is taken to the income statement in Provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

### 17. Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Company. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest method as set out in policy 6. Derivatives embedded in financial liabilities that are not designated at fair value are accounted for as set out in policy 7. Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, net of any related tax.

### 18. Share capital

#### Share issue costs

Incremental costs directly attributable to the issue of new shares or options including those issued on the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

#### Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Barclays Bank PLC (the Bank) shareholders.

### 19. Insurance contracts and investment contracts

The Group offers wealth management, term assurance, annuity, property and payment protection insurance products to customers that take the form of long- and short-term insurance contracts.

The Group classifies its wealth management and other products as insurance contracts where these transfer significant insurance risk, generally where the benefits payable on the occurrence of an insured event are at least 5% more than the benefits that would be payable if the insured event does not occur.

Contracts that do not contain significant insurance risk or discretionary participation features are classified as investment contracts. Financial assets and liabilities relating to investment contracts, and assets backing insurance contracts are classified and measured as appropriate under IAS 39, 'Financial Instruments: Recognition and Measurement'.

#### Long-term insurance contracts

These contracts, insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims and surrenders are accounted for when notified. Maturities on the policy maturity date and regular withdrawals are accounted for when due.



A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised, based on the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the future premiums that would be required to meet the benefits and other expenses. The calculation of the liability contains assumptions regarding mortality, maintenance expenses and investment income.

Liabilities under unit-linked life insurance contracts (such as endowment policies) in addition reflect the value of assets held within unitheld investment pools.

#### Short-term insurance contracts

Under its payment protection insurance products the Group is committed to paying benefits to the policyholder rather than forgiving interest or principal on the occurrence of an insured event, such as unemployment, sickness, or injury. Property insurance contracts mainly compensate the policyholders for damage to their property or for the value of property lost.

Premiums are recognised as revenue proportionally over the period of the coverage. Claims and claims handling costs are charged to income as incurred, based on the estimated liability for compensation owed to policyholders arising from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group, based on assessments of individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

#### Deferred acquisition costs (DAC)

Commissions and other costs that are related to securing new insurance and investment contracts are capitalised and amortised over the estimated lives of the relevant contracts.

#### Deferred income liability

Fees that are designed to recover commissions and other costs related to either securing new insurance and investment contracts or renewing existing investment contracts are included as a liability and amortised over the estimated life of the contract.

#### Value of business acquired

On acquisition of a portfolio of contracts, such as through the acquisition of a subsidiary, the Group recognises an intangible asset representing the value of business acquired (VOBA), representing the future profits embedded in acquired insurance contracts and investment contracts with a discretionary participation feature. The asset is amortised over the remaining terms of the acquired contracts.

#### Liability adequacy test

Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities net of DAC and VOBA assets. Current best estimates of future contractual cash flows, claims handling and administration costs, and investment returns from the assets backing the liabilities are taken into account in the tests. Where a deficiency is highlighted by the test, DAC and VOBA assets are written off first, and insurance liabilities increased when these are written off in full. Any deficiency is immediately recognised in the income statement.

#### Reinsurance

Short- and long-term insurance business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, investment and expenses. All such contracts are dealt with as insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. The Group assesses reinsurance assets at each balance sheet date. If there is objective evidence of impairment, the carrying amount of the reinsurance asset is reduced accordingly resulting in a charge to the income statement.

### 20. Leases

#### Lessor

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within property, plant and equipment on the Group's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

#### Lessee

The leases entered into by the Group are primarily operating leases. Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

### 21. Employee benefits

The Group provides employees worldwide with post-retirement benefits mainly in the form of pensions. The Group operates a number of pension schemes which may be funded or unfunded and of a defined contribution or defined benefit nature. In addition, the Group contributes, according to local law in the various countries in which it operates, to Governmental and other plans which have the characteristics of defined contribution plans.

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, using the assumptions set out in Note 30. 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.

Cumulative actuarial gains and losses in excess of the greater of 10% of the assets or 10% of the obligations of the plan are recognised in the income statement over the remaining average service lives of the employees of the related plan, on a straight-line basis.

For defined contribution schemes, the Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

The Group also provides health care to certain retired employees, which are accrued as a liability in the financial statements over the period of employment, using a methodology similar to that for defined benefit pensions plans.

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

### 22. Share-based payments to employees

The Group engages in equity settled share-based payment transactions in respect of services received from certain of its employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

# Consolidated accounts Barclays Bank PLC

## Accounting policies

### 23. Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When a leasehold property ceases to be used in the business or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income and other benefits. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. The provision raised is normally utilised within nine months.

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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

### 24. Taxes, including deferred taxes

Income tax payable on taxable profits ('current tax'), is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 25. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee. The Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in Head office. Income and expenses directly associated with each segment are included in determining business segment performance.

### 26. Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

### 27. Trust activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.



# Consolidated accounts Barclays Bank PLC

## Accounting developments

### Changes in accounting policy

The adoption of IFRSs and IFRICs in 2008 has resulted in no significant changes to the accounting policies except:

- a) IFRS 8 'Operating Segments' has been adopted as at 1st January 2008. IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1st January 2009. The standard replaces IAS 14 'Segmental Reporting' and aligns operating segmental reporting with segments reported to senior management as well as requiring amendments and additions to the existing segmental reporting disclosures as set out in Note 53. The standard does not change the recognition, measurement or disclosure of specific transactions in the consolidated financial statements.
- b) Certain financial assets originally classified as held for trading have been reclassified to loans and receivables on 16th December 2008 as set out in Note 51 on page 148. Following the amendment to IAS 39 in October 2008, a non-derivative financial asset held for trading may be transferred out of the fair value through profit or loss category after 1st July 2008 where:

- In rare circumstances, it is no longer held for the purpose of selling or repurchasing in the near term; or
- It is no longer held for the purpose of selling or repurchasing in the near term, it would have met the definition of a loan and receivable on initial classification and the Group has the intention and ability to hold it for the foreseeable future or until maturity.

### Future Accounting Developments

Consideration will be given during 2009 to the implications, if any, of the following new and revised standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as follows:

- IFRS 3 – Business Combinations and IAS 27 – Consolidated and Separate Financial Statements are revised standards issued in January 2008. The revised IFRS 3 applies prospectively to business combinations first accounted for in accounting periods beginning on or after 1st July 2009 and the amendments to IAS 27 apply retrospectively to periods beginning on or after 1st July 2009. The main changes in existing practice resulting from the revision to IFRS 3 affect acquisitions that are achieved in stages and acquisitions where less than 100% of the equity is acquired. In addition, acquisition related costs – such as fees paid to advisers – must be accounted for separately from the business combination, which means that they will be recognised as expenses unless they are directly connected with the issue of debt or equity securities. The revisions to IAS 27 specify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. Until future acquisitions take place that are accounted for in accordance with the revised IFRS 3, the main impact on Barclays will be that, from 2010, gains and losses on transactions with non-controlling interests that do not result in loss of control will no longer be recognised in the income statement but directly in equity. In 2008, gains of £8m and losses of £2m were recognised in income relating to such transactions.

- IAS – 1 Presentation of Financial Statements is a revised standard applicable to annual periods beginning on 1st January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- An amendment to IFRS 2 Share-based Payment was issued in January 2008 that clarifies that vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, which results in the acceleration of charge. The Group is considering the implications of the amendment, particularly to the Sharesave scheme, and any resulting change in accounting policy would be accounted for in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors in 2009.
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate were issued in May 2008. The amendment to IFRS 1 has no impact on Barclays. The amendment to IAS 27 results in dividends received from subsidiaries being treated as income in the individual financial statements of the parent, whether paid from pre or post acquisition profits, and could affect the cost of investment in subsidiaries in certain group reconstructions. The amendments, which first apply to annual periods beginning on or after 1st January 2009, are not expected to affect group accounting policies.
- IAS 23 – Borrowing Costs is a revised standard applicable to annual periods beginning on 1st January 2009. The revision does not impact Barclays. The revision removes the option to not capitalise borrowing costs on qualifying assets, which are assets that take a substantial period of time to prepare for their intended use or sale.
- Amendments to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements were issued in February 2008 that require some puttable instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments, which are applicable to annual periods beginning on 1st January 2009, are not expected to have a material impact on Barclays.
- Eligible Hedged Items (an amendment to IAS 39 Financial Instruments: Recognition and Measurement) was issued in July 2008 and applies retrospectively for annual periods beginning on or after 1st July 2009. The amendment provides additional guidance where hedge accounting is to be obtained for a one sided risk in a hedged item or for inflation in a financial hedged item. No changes to accounting policies are expected as a result of the amendment.
- 'Improvements to IFRS' was issued in May 2008 and contains numerous amendments to IFRS which the IASB consider non-urgent but necessary. No changes to accounting policies are expected as a result of these amendments.

# Consolidated accounts Barclays Bank PLC

## Accounting developments

The following IFRIC interpretations issued during 2007 or 2008 which first apply to accounting periods beginning on or after 1st January 2009 are not expected to result in any changes to the Group's accounting policies:

- IFRIC 13 – Customer Loyalty Programs;
  - IFRIC 15 – Agreements for the Construction of Real Estate;
  - IFRIC 16 – Hedges of a Net Investment in a Foreign Operation; and
  - IFRIC 17 – Distribution of Non-cash assets to owners.
- IFRIC 18 – Transfer of Assets from Customers, was issued in January 2009 and applies prospectively to transfers of assets from customers received on or after 1st July 2009. This interpretation is not expected to result in any changes to the Group's accounting policies.

### Acquisitions

#### 2008

On 31st March 2008, Barclays completed the acquisition of Discover Financial Services' UK credit card business, Goldfish. Discover Financial Services is a leading credit card issuer and electronic payment services company.

On 1st July 2008, Barclays acquired 100% of the ordinary shares of Expobank. Expobank is based in Moscow and its main products and services are issuance and servicing of debit and credit cards, mortgages and loans, currency transactions, internet-banking, retail discount cards and other services.

On 22nd September 2008, Barclays completed the acquisition of Lehman Brothers North American businesses. The Lehman Brothers North American businesses include Lehman Brothers North American fixed income and equities sales, trading and research and investment banking businesses, Lehman Brothers New York Head Office at 745 Seventh Avenue and two data centres in New Jersey.

On 6th November 2008, Barclays purchased the Italian residential mortgage business of Macquarie Bank Limited. The acquired business includes a mortgage portfolio with a total outstanding balance of approximately €1.1 billion, as well as Macquarie's operational support functions, including staff.

#### 2007

On 8th February 2007, Barclays completed the acquisition of Indexchange Investment AG. Indexchange is based in Munich and offers exchange traded fund products.

On 28th February 2007, Barclays completed the acquisition of Nile Bank Limited. Nile Bank is based in Uganda with 18 branches and 228 employees.

On 30th March 2007, Barclays completed the acquisition of EquiFirst. EquiFirst is a non-prime wholesale mortgage originator in the United States.

On 18th May 2007, Barclays completed the acquisition of Walbrook Group Limited. Walbrook is based in Jersey, Guernsey, Isle of Man and Hong Kong where it serves high net worth private clients and corporate customers.

#### 2006

On 1st November 2006, Barclays Bank PLC acquired the US mortgage servicing business of HomEq Servicing Corporation from Wachovia Corporation.

### Disposals

#### 2008

On 31st October 2008 Barclays completed the sale of Barclays Life Assurance Company Ltd to Swiss Reinsurance Company.

#### 2007

On 4th April 2007, Barclays completed the sale of part of Monument, a credit card business.

On 24th September 2007, Barclays completed the sale of a 50% shareholding in Intelnet Global Services Pvt Ltd.

#### 2006

On 1st January 2006, Barclays completed the sale of the Barclays South African branch business to Absa Group Limited. This consists of the Barclays Capital South African operations and Corporate and Business Banking activities previously carried out by the South African branch of Global Retail and Commercial Banking, together with the associated assets and liabilities.

On 25th July 2006, Barclays Asset & Sales Finance (BASF) disposed of its interest in its motor vehicle contract hire business, Appleyard Finance Holdings Limited.

On 31st August 2006, Barclays disposed of Bankhaus Wolbern which was formerly part of Absa.

On 22nd December 2006 Barclays disposed of its interest in FirstCaribbean International Bank to Canadian Imperial Bank of Commerce.

On 31st December 2006, BASF disposed of its European Vendor Finance business, including Barclays Industrie Bank GmbH and Barclays Technology Finance Ltd, to CIT Group.

### Recent developments

On 2nd February 2009, Barclays completed the acquisition of PT Bank Akita, which was announced initially on 17th September 2008, following the approval of the Central Bank of Indonesia.

On 17th February 2009, Barclays announced that Barclays Capital will discontinue operations at its EquiFirst subsidiary due to the market environment and strategic direction of the Group.

## Consolidated income statement

## For the year ended 31st December

		The Group	
	Notes	2008 £m	2007 £m
<b>Continuing operations</b>			
Interest income	2	<b>28,010</b>	25,308
Interest expense	2	<b>(16,595)</b>	(15,707)
Net interest income		<b>11,415</b>	9,601
Fee and commission income	3	<b>9,489</b>	8,682
Fee and commission expense	3	<b>(1,082)</b>	(970)
Net fee and commission income		<b>8,407</b>	7,712
Net trading income	4	<b>1,260</b>	3,759
Net investment income	4	<b>680</b>	1,216
Principal transactions		<b>1,940</b>	4,975
Net premiums from insurance contracts	5	<b>1,090</b>	1,011
Other income	6	<b>454</b>	224
Total income		<b>23,306</b>	23,523
Net claims and benefits incurred on insurance contracts	5	<b>(237)</b>	(492)
Total income net of insurance claims		<b>23,069</b>	23,031
Impairment charges and other credit provisions	7	<b>(5,419)</b>	(2,795)
Net income		<b>17,650</b>	20,236
Staff costs	8	<b>(7,779)</b>	(8,405)
Administration and general expenses	9	<b>(5,662)</b>	(4,141)
Depreciation of property, plant and equipment	23	<b>(630)</b>	(467)
Amortisation of intangible assets	22	<b>(291)</b>	(186)
Operating expenses		<b>(14,362)</b>	(13,199)
Share of post-tax results of associates and joint ventures	19	<b>14</b>	42
Profit on disposal of subsidiaries, associates and joint ventures	39	<b>327</b>	28
Gains on acquisitions	40	<b>2,406</b>	–
Profit before tax		<b>6,035</b>	7,107
Tax	10	<b>(786)</b>	(1,981)
Profit after tax		<b>5,249</b>	5,126
Profit attributable to minority interests	34	<b>403</b>	377
Profit attributable to equity holders		<b>4,846</b>	4,749
		<b>5,249</b>	5,126

The Board of Directors approved the accounts set out on pages 23 to 155 on 5th March 2009.

The accompanying notes form an integral part of the accounts.

## Note

As permitted by section 230(3) of the Companies Act 1985 an income statement for the parent company has not been presented.

As at 31st December

		The Group		The Bank		
		2008 £m	2007 £m	2008 £m	2007 £m	
		Notes				
<b>Assets</b>						
Cash and balances at central banks			30,019	5,801	24,867	1,919
Items in the course of collection from other banks			1,695	1,836	1,466	1,909
Trading portfolio assets	11		185,646	193,726	116,522	141,969
Financial assets designated at fair value:						
– held on own account	12		54,542	56,629	34,098	36,313
– held in respect of linked liabilities to customers under investment contracts	12		66,657	90,851	–	–
Derivative financial instruments	13		984,802	248,088	1,003,685	260,754
Loans and advances to banks	14		47,707	40,120	37,824	26,443
Loans and advances to customers	14		461,815	345,398	553,889	399,264
Available for sale financial investments	15		65,016	43,256	57,902	25,582
Reverse repurchase agreements and cash collateral on securities borrowed	16		130,354	183,075	128,815	186,554
Other assets	17		6,302	5,153	4,429	2,898
Current tax assets			389	518	234	803
Investments in associates and joint ventures	19		341	377	112	112
Investments in subsidiaries	20		–	–	16,922	14,992
Goodwill	21		7,625	7,014	3,574	3,593
Intangible assets	22		2,777	1,282	546	368
Property, plant and equipment	23		4,674	2,996	1,790	1,549
Deferred tax assets	18		2,668	1,463	867	785
<b>Total assets</b>			<b>2,053,029</b>	<b>1,227,583</b>	<b>1,987,542</b>	<b>1,105,807</b>
<b>Liabilities</b>						
Deposits from banks			114,910	90,546	127,551	105,174
Items in the course of collection due to other banks			1,635	1,792	1,558	1,791
Customer accounts			335,533	295,849	444,844	359,061
Trading portfolio liabilities	11		59,474	65,402	39,428	44,054
Financial liabilities designated at fair value	24		76,892	74,489	70,658	73,905
Liabilities to customers under investment contracts	12		69,183	92,639	–	–
Derivative financial instruments	13		968,072	248,288	989,097	257,194
Debt securities in issue			153,426	120,228	84,899	56,408
Repurchase agreements and cash collateral on securities lent	16		182,285	169,429	148,950	153,649
Other liabilities	25		12,640	10,514	15,295	10,635
Current tax liabilities			1,215	1,311	651	842
Insurance contract liabilities, including unit-linked liabilities	26		2,152	3,903	–	–
Subordinated liabilities	27		29,842	18,150	29,168	17,987
Deferred tax liabilities	18		304	855	20	–
Provisions	28		535	830	390	809
Retirement benefit liabilities	30		1,357	1,537	1,154	1,381
<b>Total liabilities</b>			<b>2,009,455</b>	<b>1,195,762</b>	<b>1,953,663</b>	<b>1,082,890</b>
<b>Shareholders' equity</b>						
Called up share capital	31		2,398	2,382	2,398	2,382
Share premium account	31		12,060	10,751	12,060	10,751
Other reserves	32		1,723	(170)	371	228
Other shareholders' equity	33		2,564	2,687	2,628	2,751
Retained earnings	32		22,457	14,222	16,422	6,805
<b>Shareholders' equity excluding minority interests</b>			<b>41,202</b>	<b>29,872</b>	<b>33,879</b>	<b>22,917</b>
Minority interests	34		2,372	1,949	–	–
<b>Total shareholders' equity</b>			<b>43,574</b>	<b>31,821</b>	<b>33,879</b>	<b>22,917</b>
<b>Total liabilities and shareholders' equity</b>			<b>2,053,029</b>	<b>1,227,583</b>	<b>1,987,542</b>	<b>1,105,807</b>

The accompanying notes form an integral part of the accounts.

**Marcus Agius**  
Group Chairman

**John Varley**  
Group Chief Executive

**Christopher Lucas**  
Group Finance Director

## Statements of recognised income and expense

## For the year ended 31st December

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Available for sale reserve:</b>				
– Net (losses)/gains from changes in fair value	(1,757)	389	(590)	280
– Losses transferred to net profit due to impairment	382	13	219	13
– Net gains transferred to net profit on disposal	(209)	(563)	(146)	(158)
– Net (gains)/losses transferred to net profit due to fair value hedging	(2)	68	–	–
<b>Cash flow hedging reserve:</b>				
– Net gains from changes in fair value	305	106	489	253
– Net losses transferred to net profit	71	253	63	39
Currency translation differences	2,407	54	142	41
Tax	841	54	12	(143)
Other	(56)	22	26	53
Amounts included directly in equity	1,982	396	215	378
<b>Profit after tax</b>	<b>5,249</b>	<b>5,126</b>	<b>6,157</b>	<b>4,792</b>
<b>Total recognised income and expense for the year</b>	<b>7,231</b>	<b>5,522</b>	<b>6,372</b>	<b>5,170</b>
<b>Attributable to:</b>				
Equity holders	6,654	5,135	6,372	5,170
Minority interests	577	387	–	–
	<b>7,231</b>	<b>5,522</b>	<b>6,372</b>	<b>5,170</b>

## Cash flow statements

## For the year ended 31st December

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Reconciliation of profit before tax to net cash flows from operating activities:</b>				
<b>Profit before tax</b>	<b>6,035</b>	<b>7,107</b>	<b>6,354</b>	<b>5,089</b>
<b>Adjustment for non-cash items:</b>				
Allowance for impairment	5,419	2,795	3,998	1,793
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	951	669	415	365
Other provisions, including pensions	804	753	729	767
Net profit from associates and joint ventures	(14)	(42)	–	–
Net profit on disposal of investments and property, plant and equipment	(371)	(862)	(236)	(396)
Net profit from disposal of associates and joint ventures	–	(26)	–	(480)
Net profit from disposal of subsidiaries	(327)	(2)	(4,311)	(2)
Net gains on acquisitions	(2,406)	–	(86)	–
Other non-cash movements	830	(1,471)	(92)	(1,961)
<b>Changes in operating assets and liabilities:</b>				
Net increase in loans and advances to banks and customers	(58,432)	(77,987)	(103,924)	(125,559)
Net increase in deposits and debt securities in issue	76,886	91,451	131,952	128,002
Net increase in derivative financial instruments	(17,529)	(2,144)	(11,028)	(1,503)
Net decrease/(increase) in trading portfolio assets	26,945	(18,245)	20,423	(23,397)
Net (decrease)/increase in trading liabilities	(5,928)	(6,472)	(4,626)	575
Net decrease/(increase) in financial investments	5,229	(4,379)	(1,032)	9,544
Net (increase)/decrease in other assets	(3,005)	1,296	(1,088)	881
Net (decrease)/increase in other liabilities	(492)	(1,056)	3,832	(7,153)
<b>Tax (paid)/received</b>	<b>(1,725)</b>	<b>(1,583)</b>	<b>156</b>	<b>557</b>
<b>Net cash from operating activities</b>	<b>32,870</b>	<b>(10,198)</b>	<b>41,436</b>	<b>(12,878)</b>
Purchase of available for sale financial investments	(57,756)	(26,947)	(63,608)	(20,222)
Proceeds from sale or redemption of available for sale financial investments	51,429	38,423	40,770	28,463
Purchase of intangible assets	(687)	(263)	(274)	(63)
Purchase of property, plant and equipment	(1,720)	(1,241)	(659)	(597)
Proceeds from sale of property, plant and equipment	799	617	347	402
Acquisitions of subsidiaries, net of cash acquired	(961)	(270)	(779)	(270)
Disposal of subsidiaries, net of cash disposed	238	383	4,319	383
Increase in investment in subsidiaries	(157)	(668)	(157)	(668)
Decrease in investment in subsidiaries	19	57	155	57
Acquisition of associates and joint ventures	(96)	(220)	(4)	(23)
Disposal of associates and joint ventures	137	145	–	488
Investment in subsidiaries	–	–	(950)	–
<b>Net cash from investing activities</b>	<b>(8,755)</b>	<b>10,016</b>	<b>(20,840)</b>	<b>7,950</b>
Dividends paid	(1,796)	(3,418)	(1,688)	(3,635)
Proceeds of borrowings and issuance of debt securities	9,645	4,625	5,623	4,495
Repayments of borrowings and redemption of debt securities	(1,207)	(683)	(1,205)	(670)
Net issue of shares and other equity instruments	1,327	1,355	1,327	1,355
Capital injection from Barclays PLC	5,137	1,434	5,137	1,434
Net issue of shares to minority interests	11	199	–	–
<b>Net cash from financing activities</b>	<b>13,117</b>	<b>3,512</b>	<b>9,194</b>	<b>2,979</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(5,801)</b>	<b>(654)</b>	<b>(3,622)</b>	<b>(114)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>31,431</b>	<b>2,676</b>	<b>26,168</b>	<b>(2,063)</b>
Cash and cash equivalents at beginning of year	33,078	30,402	21,876	23,939
<b>Cash and cash equivalents at end of year</b>	<b>64,509</b>	<b>33,078</b>	<b>48,044</b>	<b>21,876</b>
<b>Cash and cash equivalents comprise:</b>				
Cash and balances at central banks	30,019	5,801	24,867	1,919
Loans and advances to banks	47,707	40,120	37,824	26,443
Less: non-cash amounts and amounts with original maturity greater than three months	(15,428)	(19,376)	(14,896)	(11,726)
	32,279	20,744	22,928	14,717
Available for sale treasury and other eligible bills	65,016	43,256	57,902	25,582
Less: non-cash and amounts with original maturity greater than three months	(62,916)	(41,872)	(57,764)	(25,477)
	2,100	1,384	138	105
Trading portfolio assets	185,646	193,726	116,522	141,969
Less: non-cash and amounts with original maturity greater than three months	(185,535)	(188,591)	(116,411)	(136,834)
	111	5,135	111	5,135
Other	–	14	–	–
	64,509	33,078	48,044	21,876

Interest received in 2008 was £41,017m (2007: £49,441m) and interest paid in 2008 was £38,975m (2007: £37,821m).

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £1,050m at 31st December 2008 (2007: £1,037m).



# Notes to the accounts

## For the year ended 31st December 2008

### 1 Dividends

Dividends paid in the year were:

	2008 £m	2007 £m
<b>On ordinary shares</b>		
Final dividend	1,030	791
Interim dividends	130	2,496
<b>Dividends</b>	<b>1,160</b>	<b>3,287</b>

These dividends are paid to enable Barclays PLC to fund its dividends to its shareholders and in 2008, to fund the repurchase by Barclays PLC of ordinary share capital.

Dividends per ordinary share for 2008 were 49.6p (2007: 140.7p). Dividends paid on the 4.75% €100 preference shares amounted to £364.42 per share (2007: £324.46). Dividends paid on the 4.875% €100 preference shares amounted to £426.88 per share (2007: £349.27). Dividends paid on the 6.0% £100 preference shares amounted to £600.00 per share (2007: £600.00). Dividends paid on the 6.278% US\$100 preference shares amounted to £372.78 per share (2007: £313.32). Dividends paid on the 6.625% US\$0.25 preference shares amounted to 93.0p per share (2007: 83.2p). Dividends paid on the 7.1% US\$0.25 preference shares amounted to £1.00 per share (2007: 22.3p). Dividends paid on the 7.75% US\$0.25 preference shares amounted to £1.11 per share (2007: nil). Dividends paid on the 8.125% US\$0.25 preference shares amounted to 82.0p per share (2007: nil).

Dividends paid on preference shares amounted to £390m (2007: £193m). Dividends paid on other equity instruments as detailed in Note 33 amounted to £112m (2007: £152m).

### 2 Net interest income

	The Group	
	2008 £m	2007 £m
Cash and balances with central banks	174	145
Available for sale investments	2,355	2,580
Loans and advances to banks	1,267	1,416
Loans and advances to customers	23,754	19,559
Other	460	1,608
<b>Interest income</b>	<b>28,010</b>	<b>25,308</b>
Deposits from banks	(2,189)	(2,720)
Customer accounts	(6,714)	(4,110)
Debt securities in issue	(5,947)	(6,651)
Subordinated liabilities	(1,349)	(878)
Other	(396)	(1,348)
<b>Interest expense</b>	<b>(16,595)</b>	<b>(15,707)</b>
<b>Net interest income</b>	<b>11,415</b>	<b>9,601</b>

Interest income includes £135m (2007: £113m) accrued on impaired loans.

Other interest income principally includes interest income relating to reverse repurchase agreements. Similarly, other interest expense principally includes interest expense relating to repurchase agreements and hedging activity.

Included in net interest income is hedge ineffectiveness as detailed in Note 13.

# Notes to the accounts

## For the year ended 31st December 2008

### 3 Net fee and commission income

	The Group	
	2008 £m	2007 £m
<b>Fee and commission income</b>		
Brokerage fees	87	109
Investment management fees	1,616	1,787
Securities lending	389	241
Banking and credit related fees and commissions	7,208	6,367
Foreign exchange commissions	189	178
<b>Fee and commission income</b>	<b>9,489</b>	<b>8,682</b>
<b>Fee and commission expense</b>	<b>(1,082)</b>	<b>(970)</b>
<b>Net fee and commission income</b>	<b>8,407</b>	<b>7,712</b>

### 4 Principal transactions

	The Group	
	2008 £m	2007 £m
Rates related business	4,682	4,162
Credit related business	(3,422)	(403)
<b>Net trading income</b>	<b>1,260</b>	<b>3,759</b>
Net gain from disposal of available for sale assets	212	560
Dividend income	196	26
Net gain from financial instruments designated at fair value	33	293
Other investment income	239	337
<b>Net investment income</b>	<b>680</b>	<b>1,216</b>
<b>Principal transactions</b>	<b>1,940</b>	<b>4,975</b>

Net trading income includes the profits and losses arising both on the purchase and sale of trading instruments and from the revaluation to fair value, together with the interest income earned from these instruments and the related funding cost.

Of the total net trading income, a £2,096m net loss (2007: £116m loss) was made on the purchase and sale of securities and the revaluation of both securities and derivatives. This included a £1,272m gain (2007: £640m) that was earned in foreign exchange dealings.

The net loss on financial assets designated at fair value included within principal transactions was £6,602m (2007: £78m gain) of which losses of £6,635m (2007: £215m loss) were included in net trading income and gains of £33m (2007: £293m) were included in net investment income.

The net gain on financial liabilities designated at fair value included within principal transactions was £3,328m (2007: £231m loss), all of which was included within net trading income.

Net trading income includes the net gain from widening of credit spreads relating to Barclays Capital issued structured notes held at fair value was £1,663m (2007: £658m).

## 5 Insurance premiums and insurance claims and benefits

	The Group	
	2008 £m	2007 £m
Gross premiums from insurance contracts	1,138	1,062
Premiums ceded to reinsurers	(48)	(51)
<b>Net premiums from insurance contracts</b>	<b>1,090</b>	<b>1,011</b>
	2008 £m	2007 £m
Gross claims and benefits incurred on insurance contracts	263	520
Reinsurers' share of claims incurred	(26)	(28)
<b>Net claims and benefits incurred on insurance contracts</b>	<b>237</b>	<b>492</b>

## 6 Other income

	The Group	
	2008 £m	2007 £m
(Decrease)/increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	(10,422)	5,592
Decrease/(increase) in liabilities to customers under investment contracts	10,422	(5,592)
Property rentals	73	53
Other income	381	171
<b>Other income</b>	<b>454</b>	<b>224</b>

Included in other income are sub-lease rentals of £18m (2007: £18m), and in 2008 only is a £47m gain from the Visa IPO.

## 7 Impairment charges and other credit provisions

	The Group	
	2008 £m	2007 £m
<b>Impairment charges on loans and advances</b>		
– New and increased impairment allowances	5,116	2,871
– Releases	(358)	(338)
– Recoveries	(174)	(227)
Impairment charges on loans and advances	4,584	2,306
Charge/(release) in respect of provision for undrawn contractually committed facilities and guarantees provided	329	476
<b>Impairment charges on loans and advances and other credit provisions</b>	<b>4,913</b>	<b>2,782</b>
Impairment charges on reverse repurchase agreements	124	–
Impairment on available for sale assets	382	13
<b>Impairment charges and other credit provisions</b>	<b>5,419</b>	<b>2,795</b>

An analysis of the impairment charges by class of financial instrument is included in Note 48.

# Notes to the accounts

## For the year ended 31st December 2008

### 8 Staff costs

	The Group	
	2008 £m	2007 £m
Salaries and accrued incentive payments	6,273	6,993
Social security costs	464	508
Pension costs – defined contribution plans	237	141
Pension costs – defined benefit plans (Note 30)	89	150
Other post-retirement benefits (Note 30)	1	10
Other	715	603
<b>Staff costs</b>	<b>7,779</b>	<b>8,405</b>

Included in salaries and accrued incentive payments is £257m (2007: £551m) arising from equity settled share-based payments, of which £23m (2007: £60m) is a charge related to options-based schemes. Also included is £3m (2007: £8m) arising from cash settled share-based payments.

The average number of persons employed by the Group worldwide during the year was 151,500 (2007: 128,900).

### 9 Administration and general expenses

	The Group	
	2008 £m	2007 £m
Administrative expenses	5,149	3,978
Impairment charges/(releases):		
– property and equipment (Note 23)	33	2
– intangible assets (Note 22)	(3)	14
– goodwill (Note 21)	111	–
Operating lease rentals	520	414
Gain on property disposals	(148)	(267)
Administration and general expenses	5,662	4,141

### Auditors' remuneration

	2008				
	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
<b>Audit of the Group's annual accounts</b>	12	–	–	–	12
<b>Other services:</b>					
Fees payable for the audit of the Company's associates pursuant to legislation	20	–	–	–	20
Other services supplied pursuant to such legislation	–	2	–	–	2
Other services relating to taxation	–	–	10	–	10
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	–	–	–	3	3
Other	–	4	–	1	5
<b>Total auditors' remuneration</b>	<b>32</b>	<b>6</b>	<b>10</b>	<b>4</b>	<b>52</b>
	2007				
	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
<b>Audit of the Group's annual accounts</b>	7	–	–	–	7
<b>Other services:</b>					
Fees payable for the audit of the Company's associates pursuant to legislation	12	–	–	–	12
Other services supplied pursuant to such legislation	6	2	–	–	8
Other services relating to taxation	–	–	8	–	8
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	–	–	–	5	5
Other	–	2	–	2	4
<b>Total auditors' remuneration</b>	<b>25</b>	<b>4</b>	<b>8</b>	<b>7</b>	<b>44</b>

The figures shown in the above table relate to fees paid to PricewaterhouseCoopers LLP and its associates. Fees paid to other auditors not associated with PricewaterhouseCoopers LLP in respect of the audit of the Company's subsidiaries were £3m (2007: £2m).

## 9 Administration and general expenses (continued)

Fees payable for the audit of the Company's associates pursuant to legislation comprise the fees for the statutory audit of the subsidiaries and associated pension schemes both inside and outside Great Britain and fees for the work performed by the associates of PricewaterhouseCoopers LLP in respect of the consolidated financial statements of the Company. The fees relating to the audit of the associated pension schemes were £0.2m (2007: £0.3m).

Other services supplied pursuant to such legislation comprise services in relation to statutory and regulatory filings. These include audit services for the review of the interim financial information under the Listing Rules of the UK listing authority and fees paid for reporting under Section 404 of the US Sarbanes-Oxley Act (Section 404). In 2008 fees paid for reporting under Section 404 are not separately identifiable from the fees of the audit of the Company's annual accounts and the Company's associates. Fees for the audit of Barclays Bank PLC Group accounts are not separately identifiable from Barclays PLC, therefore there is no difference in the amounts reported in both annual reports. In addition, other services include Section 404 advisory, reporting accountant work for capital raising, securitisations and services relating to acquisition activities.

Taxation services include compliance services such as tax return preparation and advisory services such as consultation on tax matters, tax advice relating to transactions and other tax planning and advice.

Services relating to corporate finance transactions comprise due diligence related to transactions and other work in connection with such transactions.

## 10 Tax

The charge for tax is based upon the UK corporation tax rate of 28.5% (2007: 30%) and comprises:

	The Group	
	2008 £m	2007 £m
<b>Current tax charge/(credit)</b>		
Current year	1,559	2,385
Adjustment for prior years	97	(11)
	<b>1,656</b>	<b>2,374</b>
<b>Deferred tax credit</b>		
Current year	(597)	(367)
Adjustment for prior years	(273)	(26)
	<b>(870)</b>	<b>(393)</b>
<b>Total charge</b>	<b>786</b>	<b>1,981</b>

The effective tax rate for the years 2008 and 2007 is lower than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are set out below:

	The Group	
	2008 £m	2007 £m
<b>Profit before tax</b>	<b>6,035</b>	<b>7,107</b>
Tax charge at standard UK corporation tax rate of 28.5% (2007: 30%)	1,720	2,132
Adjustment for prior years	(176)	(37)
Differing overseas tax rates	215	(77)
Non-taxable gains and income (including amounts offset by unrecognised tax losses)	(833)	(136)
Share-based payments	229	72
Deferred tax assets not previously recognised	(514)	(158)
Change in tax rates	(1)	24
Other non-allowable expenses	146	161
<b>Overall tax charge</b>	<b>786</b>	<b>1,981</b>
<b>Effective tax rate</b>	<b>13%</b>	<b>28%</b>

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

# Notes to the accounts

## For the year ended 31st December 2008

### 11 Trading portfolio

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Trading portfolio assets</b>				
Treasury and other eligible bills	4,544	2,094	425	1,765
Debt securities	148,686	152,778	102,923	119,255
Equity securities	30,544	36,342	11,704	18,660
Traded loans	1,070	1,780	1,047	1,775
Commodities	802	732	423	514
<b>Trading portfolio assets</b>	<b>185,646</b>	<b>193,726</b>	<b>116,522</b>	<b>141,969</b>
<b>Trading portfolio liabilities</b>				
Treasury and other eligible bills	(79)	(486)	(39)	(121)
Debt securities	(44,309)	(50,506)	(35,954)	(41,150)
Equity securities	(14,919)	(13,702)	(3,268)	(2,075)
Commodities	(167)	(708)	(167)	(708)
<b>Trading portfolio liabilities</b>	<b>(59,474)</b>	<b>(65,402)</b>	<b>(39,428)</b>	<b>(44,054)</b>



## 12 Financial assets designated at fair value

### Held on own account

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Loans and advances	30,187	23,491	24,596	18,806
Debt securities	8,628	24,217	7,801	17,388
Equity securities	6,496	5,376	12	43
Other financial assets	9,231	3,545	1,689	76
<b>Financial assets designated at fair value – held on own account</b>	<b>54,542</b>	<b>56,629</b>	<b>34,098</b>	<b>36,313</b>

The maximum exposure to credit risk on loans and advances designated at fair value at 31 st December 2008 was £30,187m (2007: £23,491m). The amount by which related credit derivatives and similar instruments mitigate the exposure to credit risk at 31 st December was £2,084m (2007: £2,605m).

The net loss attributable to changes in credit risk for loans and advances designated at fair value was £2,550m in 2008 (2007: £401m). The gains on related credit derivatives was £519m for the year (2007: £4m loss).

The cumulative net loss attributable to changes in credit risk for loans and advances designated at fair value since initial recognition is £2,149m at 31 st December 2008 (2007: £401m). The cumulative change in fair value of related credit derivatives at 31 st December 2008 is £523m (2007: £4m).

The maximum exposure to credit risk on loans and advances designated at fair value at 31 st December 2008 by the Bank was £22,888m (2007: £17,180m). The amount by which related credit derivatives and similar instruments mitigate the Bank's exposure to credit risk at 31 st December 2008 was £1,870m (2007: £1,963m).

### Held in respect of linked liabilities to customers under investment contracts/liabilities arising from investment contracts

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Financial assets designated at fair value held in respect of linked liabilities to customers under investment contracts	66,657	90,851	–	–
Cash and bank balances within the portfolio	2,526	1,788	–	–
<b>Assets held in respect of linked liabilities to customers under investment contracts</b>	<b>69,183</b>	<b>92,639</b>	<b>–</b>	<b>–</b>
<b>Liabilities to customers under investment contracts</b>	<b>(69,183)</b>	<b>(92,639)</b>	<b>–</b>	<b>–</b>

A portion of the Group's fund management business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the investors. In the normal course of business, the Group's financial interest in such investments is restricted to fees for investment management services.

Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities and any change in the value of the assets results in an equal but opposite change in the value of the amounts due to the policyholders.

The Group is therefore not exposed to the financial risks – market risk, credit risk and liquidity risk – inherent in the investments and they are omitted from the disclosures on financial risks in Notes 47 to 49.

In the balance sheet, the assets are included as 'Financial assets designated at fair value – held in respect of linked liabilities to customers under investment contracts'. Cash balances within the portfolio have been included in the Group's cash balances. The associated obligation to deliver the value of the investments to customers at their fair value on balance sheet date is included as 'Liabilities to customers under investment contracts'.

The increase/decrease in the value arising from the return on the investments and the corresponding increase/decrease in linked liabilities to customers is included in the Other income note in Note 6.

# Notes to the accounts

## For the year ended 31st December 2008

### 13 Derivative financial instruments

#### Financial instruments

The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in Note 46 to Note 49.

The fair values and notional amounts of derivative instruments held for trading are set out in the following table:

Year ended 31st December 2008						
Derivatives held for trading						
	Notional contract amount £m	The Group 2008 Fair value		Notional contract amount £m	The Bank 2008 Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
<b>Foreign exchange derivatives</b>						
Forward foreign exchange	1,374,108	44,631	(46,371)	1,346,142	43,242	(44,884)
Currency swaps	828,983	47,077	(53,116)	820,466	46,284	(51,942)
OTC options bought and sold	426,739	15,405	(14,331)	422,091	15,293	(14,226)
OTC derivatives	2,629,830	107,113	(113,818)	2,588,699	104,819	(111,052)
Exchange traded futures – bought and sold	8,008	–	–	9,194	–	–
Exchange traded options – bought and sold	1,295	–	–	245	–	–
<b>Foreign exchange derivatives</b>	<b>2,639,133</b>	<b>107,113</b>	<b>(113,818)</b>	<b>2,598,138</b>	<b>104,819</b>	<b>(111,052)</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	17,624,591	498,661	(496,292)	17,536,458	496,864	(494,254)
Forward rate agreements	4,377,619	8,853	(8,224)	4,008,200	8,628	(8,008)
OTC options bought and sold	5,598,960	105,743	(101,005)	5,583,942	105,609	(100,918)
<b>OTC derivatives</b>	<b>27,601,170</b>	<b>613,257</b>	<b>(605,521)</b>	<b>27,128,600</b>	<b>611,101</b>	<b>(603,180)</b>
Exchange traded futures – bought and sold	586,312	–	–	581,688	–	–
Exchange traded options – bought and sold	276,752	–	–	270,380	–	–
Exchange traded swaps	9,411,001	–	–	9,411,001	–	–
<b>Interest rate derivatives</b>	<b>37,875,235</b>	<b>613,257</b>	<b>(605,521)</b>	<b>37,391,669</b>	<b>611,101</b>	<b>(603,180)</b>
<b>Credit derivatives</b>						
Swaps	4,129,244	184,072	(170,011)	4,027,790	181,743	(166,758)
<b>Equity and stock index derivatives</b>						
OTC options bought and sold	180,157	19,576	(19,998)	154,971	18,736	(18,963)
Equity swaps and forwards	51,267	3,432	(2,819)	46,871	2,697	(2,101)
OTC derivatives	231,424	23,008	(22,817)	201,842	21,433	(21,064)
Exchange traded futures – bought and sold	38,340	–	–	33,132	–	–
Exchange traded options – bought and sold	121,712	5,551	(3,109)	38,213	5,548	(3,500)
<b>Equity and stock index derivatives</b>	<b>391,476</b>	<b>28,559</b>	<b>(25,926)</b>	<b>273,187</b>	<b>26,981</b>	<b>(24,564)</b>
<b>Commodity derivatives</b>						
OTC options bought and sold	78,680	6,565	(10,261)	78,243	6,389	(10,095)
Commodity swaps and forwards	407,015	38,316	(35,556)	404,744	38,176	(35,579)
OTC derivatives	485,695	44,881	(45,817)	482,987	44,565	(45,674)
Exchange traded futures – bought and sold	165,564	3,953	(2,745)	163,454	3,953	(2,745)
Exchange traded options – bought and sold	54,435	161	(233)	54,406	161	(233)
<b>Commodity derivatives</b>	<b>705,694</b>	<b>48,995</b>	<b>(48,795)</b>	<b>700,847</b>	<b>48,679</b>	<b>(48,652)</b>
<b>Derivatives with subsidiaries</b>					<b>27,927</b>	<b>(31,099)</b>
<b>Derivative assets/(liabilities) held for trading</b>	<b>45,740,782</b>	<b>981,996</b>	<b>(964,071)</b>	<b>44,991,631</b>	<b>1,001,250</b>	<b>(985,305)</b>

### 13 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held for risk management are set out in the following table:

Year ended 31st December 2007						
Derivatives held for trading		The Group 2007		The Bank 2007		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
<b>Foreign exchange derivatives</b>						
Forward foreign exchange	1,041,781	11,381	(11,629)	1,022,212	11,061	(11,323)
Currency swaps	562,682	15,617	(14,676)	553,842	14,973	(14,400)
OTC options bought and sold	464,575	3,350	(3,995)	463,964	3,334	(3,985)
OTC derivatives	2,069,038	30,348	(30,300)	2,040,018	29,368	(29,708)
Exchange traded futures – bought and sold	139,199	–	–	137,839	–	–
Exchange traded options – bought and sold	132	–	–	132	–	–
<b>Foreign exchange derivatives</b>	<b>2,208,369</b>	<b>30,348</b>	<b>(30,300)</b>	<b>2,177,989</b>	<b>29,368</b>	<b>(29,708)</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	11,758,215	111,746	(110,680)	11,683,045	110,995	(109,943)
Forward rate agreements	1,960,106	755	(738)	1,895,718	622	(609)
OTC options bought and sold	3,776,600	27,337	(26,944)	3,773,261	27,325	(26,933)
OTC derivatives	17,494,921	139,838	(138,362)	17,352,024	138,942	(137,485)
Exchange traded futures – bought and sold	903,516	–	–	879,626	–	–
Exchange traded options – bought and sold	269,095	102	(64)	267,701	102	(64)
Exchange traded swaps	4,941,417	–	–	4,941,417	–	–
<b>Interest rate derivatives</b>	<b>23,608,949</b>	<b>139,940</b>	<b>(138,426)</b>	<b>23,440,768</b>	<b>139,044</b>	<b>(137,549)</b>
<b>Credit derivatives</b>						
Swaps	2,472,249	38,696	(35,814)	2,472,038	38,678	(35,814)
<b>Equity and stock index derivatives</b>						
OTC options bought and sold	145,399	11,293	(15,743)	125,979	9,724	(14,203)
Equity swaps and forwards	36,149	1,057	(1,193)	24,704	650	(598)
OTC derivatives	181,548	12,350	(16,936)	150,683	10,374	(14,801)
Exchange traded futures – bought and sold	31,519	–	–	25,466	–	–
Exchange traded options – bought and sold	30,930	848	(2,200)	24,457	848	(2,199)
<b>Equity and stock index derivatives</b>	<b>243,997</b>	<b>13,198</b>	<b>(19,136)</b>	<b>200,606</b>	<b>11,222</b>	<b>(17,000)</b>
<b>Commodity derivatives</b>						
OTC options bought and sold	95,032	4,496	(4,720)	94,702	4,374	(4,709)
Commodity swaps and forwards	276,102	19,075	(18,039)	274,591	19,013	(17,993)
OTC derivatives	371,134	23,571	(22,759)	369,293	23,387	(22,702)
Exchange traded futures – bought and sold	228,465	–	–	226,356	–	–
Exchange traded options – bought and sold	66,732	1,197	(943)	66,723	1,197	(943)
<b>Commodity derivatives</b>	<b>666,331</b>	<b>24,768</b>	<b>(23,702)</b>	<b>662,372</b>	<b>24,584</b>	<b>(23,645)</b>
<b>Derivatives with subsidiaries</b>					17,001	(12,914)
<b>Derivative assets/(liabilities) held for trading</b>	<b>29,199,895</b>	<b>246,950</b>	<b>(247,378)</b>	<b>28,953,773</b>	<b>259,897</b>	<b>(256,630)</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 13 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held for risk management are set out in the following table:

Year ended 31st December 2008						
Derivatives held for risk management		The Group 2008		The Bank 2008		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
<b>Derivatives designated as cash flow hedges</b>						
Currency swaps	586	–	(271)	586	–	(271)
Interest rate swaps	60,669	1,013	(1,011)	47,687	831	(970)
Equity options	400	–	(154)	400	–	(154)
Forward foreign exchange	1,871	309	(354)	1,844	309	(351)
Exchange traded interest rate swaps	20,028	–	–	20,028	–	–
<b>Derivatives designated as cash flow hedges</b>	<b>83,554</b>	<b>1,322</b>	<b>(1,790)</b>	<b>70,545</b>	<b>1,140</b>	<b>(1,746)</b>
<b>Derivatives designated as fair value hedges</b>						
Currency swaps	2,666	283	(105)	2,486	274	(105)
Interest rate swaps	14,010	1,052	(357)	12,578	1,017	(302)
Equity options	259	124	(110)	–	–	–
Exchange traded interest rate swaps	18,767	–	–	18,767	–	–
<b>Derivatives designated as fair value hedges</b>	<b>35,702</b>	<b>1,459</b>	<b>(572)</b>	<b>33,831</b>	<b>1,291</b>	<b>(407)</b>
<b>Derivatives designated as hedges of net investments</b>						
Forward foreign exchange	2,019	4	(76)	2,019	4	(76)
Currency swaps	3,675	21	(1,563)	3,675	–	(1,563)
<b>Derivatives designated as hedges of net investment</b>	<b>5,694</b>	<b>25</b>	<b>(1,639)</b>	<b>5,694</b>	<b>4</b>	<b>(1,639)</b>
<b>Derivative assets/(liabilities) held for risk management</b>	<b>124,950</b>	<b>2,806</b>	<b>(4,001)</b>	<b>110,070</b>	<b>2,435</b>	<b>(3,792)</b>
<b>Year ended 31st December 2007</b>						
<b>Derivatives held for risk management</b>		<b>The Group 2007</b>		<b>The Bank 2007</b>		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
<b>Derivatives designated as cash flow hedges</b>						
Interest rate swaps	38,453	239	(437)	34,754	132	(215)
Equity options	54	41	–	–	–	–
Forward foreign exchange	2,256	178	–	2,256	178	–
Exchange traded interest rate swaps	14,529	–	–	14,529	–	–
<b>Derivatives designated as cash flow hedges</b>	<b>55,292</b>	<b>458</b>	<b>(437)</b>	<b>51,539</b>	<b>310</b>	<b>(215)</b>
<b>Derivatives designated as fair value hedges</b>						
Currency swaps	4,299	81	(75)	3,873	68	(75)
Interest rate swaps	18,450	323	(195)	14,872	203	(75)
Equity options	1,203	58	(58)	1,203	58	(58)
<b>Derivatives designated as fair value hedges</b>	<b>23,952</b>	<b>462</b>	<b>(328)</b>	<b>19,948</b>	<b>329</b>	<b>(208)</b>
<b>Derivatives designated as hedges of net investments</b>						
Forward foreign exchange	4,223	31	(57)	4,223	31	(53)
Currency swaps	8,397	187	(88)	8,397	187	(88)
<b>Derivatives designated as hedges of net investment</b>	<b>12,620</b>	<b>218</b>	<b>(145)</b>	<b>12,620</b>	<b>218</b>	<b>(141)</b>
<b>Derivative assets/(liabilities) held for risk management</b>	<b>91,864</b>	<b>1,138</b>	<b>(910)</b>	<b>84,107</b>	<b>857</b>	<b>(564)</b>

### 13 Derivative financial instruments (continued)

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers and investments in fixed rate debt securities held.

Currency derivatives are primarily designated as hedges of the foreign currency risk of net investments in foreign operations.

The Group's total derivative asset and liability position as reported on the balance sheet is as follows:

Year ended 31st December 2008	The Group 2008			The Bank 2008		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Total derivative assets/(liabilities) held for trading	45,740,782	981,996	(964,071)	44,991,631	1,001,250	(985,305)
Total derivative assets/(liabilities) held for risk management	124,950	2,806	(4,001)	110,070	2,435	(3,792)
<b>Derivative assets/(liabilities)</b>	<b>45,865,732</b>	<b>984,802</b>	<b>(968,072)</b>	<b>45,101,701</b>	<b>1,003,685</b>	<b>(989,097)</b>

Year ended 31st December 2007	The Group 2007			The Bank 2007		
	Notional contract amount £m	Fair value		Notional contract amount £m	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Total derivative assets/(liabilities) held for trading	29,199,895	246,950	(247,378)	28,953,773	259,897	(256,630)
Total derivative assets/(liabilities) held for risk management	91,864	1,138	(910)	84,107	857	(564)
<b>Derivative assets/(liabilities)</b>	<b>29,291,759</b>	<b>248,088</b>	<b>(248,288)</b>	<b>29,037,880</b>	<b>260,754</b>	<b>(257,194)</b>

Derivative assets and liabilities subject to counterparty netting agreements amounted to £862bn (2007: £199bn). Additionally, the Group held £55bn (2007: £17bn) of collateral against the net derivative assets exposure.

The Group has hedged the following forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

2008							
The Group	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	2,569	875	586	596	347	127	38
Forecast payable cash flows	974	275	166	175	145	123	90

2007							
The Group	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	4,329	1,593	987	903	535	254	57
Forecast payable cash flows	2,121	394	369	335	283	244	496

# Notes to the accounts

## For the year ended 31st December 2008

### 13 Derivative financial instruments (continued)

2008							
The Bank	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	2,368	790	535	563	324	119	37
Forecast payable cash flows	960	268	163	175	145	123	86

2007							
The Bank	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	4,329	1,593	987	903	535	254	57
Forecast payable cash flows	2,009	343	336	315	277	242	496

The maximum length of time over which the Group and the Bank hedge exposure to the variability in future cash flows for forecast transactions, excluding those forecast transactions related to the payment of variable interest on existing financial instruments, is seven years (2007: ten years).

All gains or losses on hedging derivatives relating to forecast transactions, which are no longer expected to occur, have been recycled to the income statement.

A gain of £2,439m on hedging instruments was recognised in relation to fair value hedges in net interest income for the Group (2007: £66m loss).

A loss of £2,423m on the hedged items was recognised in relation to fair value hedges in net interest income for the Group (2007: £70m gain).

Ineffectiveness recognised in relation to cash flow hedges in net interest income for the Group was a gain of £14m (2007: £21m). Ineffectiveness recognised in relation to hedges of net investment for the Group was a gain of £2m (2007: £4m).

A gain of £2,438m on hedging instruments was recognised in relation to fair value hedges in net interest income for the Bank (2007: £61m).

A loss of £2,448m on the hedged items was recognised in relation to fair value hedges in net interest income for the Bank (2007: £59m).

Ineffectiveness recognised in relation to cash flow hedges in net interest income for the Bank was a gain of £21m (2007: £24m gain). Ineffectiveness recognised in relation to hedges of net investment for the Bank was a loss of £1m (2007: £4m gain).

### 14 Loans and advances to banks and customers

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Gross loans and advances to banks	47,758	40,123	37,875	26,446
Less: Allowance for impairment	(51)	(3)	(51)	(3)
<b>Loans and advances to banks</b>	<b>47,707</b>	<b>40,120</b>	<b>37,824</b>	<b>26,443</b>
Gross loans and advances to customers	468,338	349,167	559,112	402,035
Less: Allowance for impairment	(6,523)	(3,769)	(5,223)	(2,771)
<b>Loans and advances to customers</b>	<b>461,815</b>	<b>345,398</b>	<b>553,889</b>	<b>399,264</b>



## 15 Available for sale financial investments

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Debt securities	58,831	38,673	57,061	24,594
Treasury bills and other eligible bills	4,003	2,723	380	335
Equity securities	2,182	1,860	461	653
<b>Available for sale financial investments</b>	<b>65,016</b>	<b>43,256</b>	<b>57,902</b>	<b>25,582</b>
<b>Movement in available for sale financial investments</b>				
	2008 £m	2007 £m	2008 £m	2007 £m
<b>At beginning of year</b>	<b>43,256</b>	<b>51,952</b>	<b>25,582</b>	<b>31,564</b>
Exchange and other adjustments	14,275	1,499	9,919	1,839
Acquisitions and transfers	59,703	26,950	63,608	20,241
Disposals (through sale and redemption)	(50,629)	(37,498)	(40,591)	(28,319)
(Losses)/gains from changes in fair value recognised in equity	(1,190)	391	(383)	294
Impairment	(382)	(13)	(219)	(13)
Amortisation of discounts/premium	(17)	(25)	(14)	(24)
<b>At end of year</b>	<b>65,016</b>	<b>43,256</b>	<b>57,902</b>	<b>25,582</b>

## 16 Securities borrowing, securities lending, repurchase and reverse repurchase agreements

Amounts included in the balance sheet and reported on a net basis where the Group has the intention and the legal ability to settle net or realise simultaneously were as follows:

### (a) Reverse repurchase agreements and cash collateral held on securities borrowed

Amounts advanced to counterparties under reverse repurchase agreements and cash collateral provided under stock borrowing agreements are treated as collateralised loans receivable. The related securities purchased or borrowed subject to an agreement with the counterparty to repurchase them are not recognised on balance sheet where the risks and rewards of ownership remain with the counterparty.

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Banks	55,471	86,710	37,055	65,031
Customers	74,883	96,365	91,760	121,523
<b>Reverse repurchase agreements and cash collateral on securities borrowed</b>	<b>130,354</b>	<b>183,075</b>	<b>128,815</b>	<b>186,554</b>

### (b) Repurchase agreements and cash collateral on securities lent

Securities that are not recorded on the balance sheet (for example, securities that have been obtained as a result of reverse repurchase and stock borrow transactions) may also be lent or sold subject to a commitment to repurchase – such securities remain off balance sheet. In both instances, amounts received from counterparty are treated as liabilities, which at 31 st December were as follows:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Banks	87,403	97,297	61,683	62,258
Customers	94,882	72,132	87,267	91,391
<b>Repurchase agreements and cash collateral on securities lent</b>	<b>182,285</b>	<b>169,429</b>	<b>148,950</b>	<b>153,649</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 17 Other assets

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Sundry debtors	<b>4,814</b>	4,045	<b>3,662</b>	2,293
Prepayments	<b>882</b>	551	<b>478</b>	416
Accrued income	<b>483</b>	400	<b>289</b>	189
Reinsurance assets	<b>123</b>	157	–	–
<b>Other assets</b>	<b>6,302</b>	5,153	<b>4,429</b>	2,898

Included in the above Group balances are £4,704m (2007: £4,541m) expected to be recovered within no more than 12 months after the balance sheet date; and balances of £1,598m (2007: £612m) expected to be recovered more than 12 months after the balance sheet date.

Included in the above Bank balances are £3,685m (2007: £2,377m) expected to be recovered within no more than 12 months after the balance sheet date, and balances of £744m (2007: £521m) expected to be recovered more than 12 months after the balance sheet date.

Other assets for the Group include £3,096m (2007: £3,966m) of receivables which meet the definition of financial assets.

Other assets for the Bank include £2,268m (2007: £2,223m) of receivables which meet the definition of financial assets.

### 18 Deferred tax

The components of taxes disclosed on the balance sheet are as follows:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Deferred tax liability	<b>304</b>	855	<b>20</b>	–
Deferred tax asset	<b>2,668</b>	1,463	<b>867</b>	785
<b>Net deferred tax</b>	<b>2,364</b>	608	<b>847</b>	785

## 18 Deferred tax (continued)

Deferred taxes are calculated on all temporary differences under the liability method. The movement on the deferred tax account is as follows:

The Group	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Pensions & Other retirement benefits £m	Allowance for impairment on loans £m	Other provisions £m	Tax losses carried forward £m	Share based payments £m	Other £m	Total £m
Liabilities	(803)	(101)	(51)	—	—	—	—	—	(771)	(1,726)
Assets	—	—	44	491	108	377	215	428	671	2,334
<b>At 1st January 2008</b>	<b>(803)</b>	<b>(101)</b>	<b>(7)</b>	<b>491</b>	<b>108</b>	<b>377</b>	<b>215</b>	<b>428</b>	<b>(100)</b>	<b>608</b>
Income statement	124	8	5	(90)	223	(10)	598	(215)	227	870
Equity	—	103	(161)	—	—	—	750	(33)	(13)	646
Acquisitions and disposals	(195)	—	—	—	—	56	—	75	(211)	(275)
Exchange and other adjustments	16	1	41	2	25	109	96	87	138	515
	<b>(858)</b>	<b>11</b>	<b>(122)</b>	<b>403</b>	<b>356</b>	<b>532</b>	<b>1,659</b>	<b>342</b>	<b>41</b>	<b>2,364</b>
Liabilities	(945)	(46)	(368)	—	—	—	—	—	(1,075)	(2,434)
Assets	87	57	246	403	356	532	1,659	342	1,116	4,798
<b>At 31st December 2008</b>	<b>(858)</b>	<b>11</b>	<b>(122)</b>	<b>403</b>	<b>356</b>	<b>532</b>	<b>1,659</b>	<b>342</b>	<b>41</b>	<b>2,364</b>

Liabilities	(705)	(116)	—	—	—	—	—	—	(702)	(1,523)
Assets	—	—	91	622	69	436	1	380	406	2,005
<b>At 1st January 2007</b>	<b>(705)</b>	<b>(116)</b>	<b>91</b>	<b>622</b>	<b>69</b>	<b>436</b>	<b>1</b>	<b>380</b>	<b>(296)</b>	<b>482</b>
Income statement	(118)	1	—	(96)	28	165	214	100	99	393
Equity	—	13	(132)	—	—	—	—	(63)	(125)	(307)
Acquisitions and disposals	—	—	—	—	—	45	—	—	(12)	33
Exchange and other adjustments	20	1	34	(35)	11	(269)	—	11	234	7
	<b>(803)</b>	<b>(101)</b>	<b>(7)</b>	<b>491</b>	<b>108</b>	<b>377</b>	<b>215</b>	<b>428</b>	<b>(100)</b>	<b>608</b>
Liabilities	(803)	(101)	(51)	—	—	—	—	—	—	(1,726)
Assets	—	—	44	491	108	377	215	428	671	2,334
<b>At 31st December 2007</b>	<b>(803)</b>	<b>(101)</b>	<b>(7)</b>	<b>491</b>	<b>108</b>	<b>377</b>	<b>215</b>	<b>428</b>	<b>(100)</b>	<b>608</b>

The Bank	Fixed asset timing differences £m	Available for sale investments £m	Cash flow hedges £m	Pensions & Other retirement benefits £m	Allowance for impairment on loans £m	Other provisions £m	Tax losses carried forward £m	Share based payments £m	Other £m	Total £m
Liabilities	(24)	(56)	—	—	—	—	—	—	—	(80)
Assets	—	—	2	432	30	57	4	32	308	865
<b>At 1st January 2008</b>	<b>(24)</b>	<b>(56)</b>	<b>2</b>	<b>432</b>	<b>30</b>	<b>57</b>	<b>4</b>	<b>32</b>	<b>308</b>	<b>785</b>
Income statement	16	2	4	(79)	45	(27)	354	(10)	(128)	177
Equity	—	54	(218)	—	—	—	—	—	(15)	(179)
Acquisitions and disposals	—	—	—	—	—	—	—	—	(9)	(9)
Exchange and other adjustments	(2)	(2)	(1)	(18)	10	(18)	52	1	51	73
	<b>(10)</b>	<b>(2)</b>	<b>(213)</b>	<b>335</b>	<b>85</b>	<b>12</b>	<b>410</b>	<b>23</b>	<b>207</b>	<b>847</b>
Liabilities	(10)	(2)	(213)	—	—	—	—	—	—	(225)
Assets	—	—	—	335	85	12	410	23	207	1,072
<b>At 31st December 2008</b>	<b>(10)</b>	<b>(2)</b>	<b>(213)</b>	<b>335</b>	<b>85</b>	<b>12</b>	<b>410</b>	<b>23</b>	<b>207</b>	<b>847</b>

Liabilities	(9)	(56)	(2)	—	—	—	—	—	—	(67)
Assets	—	—	57	552	23	73	1	80	385	1,171
<b>At 1st January 2007</b>	<b>(9)</b>	<b>(56)</b>	<b>55</b>	<b>552</b>	<b>23</b>	<b>73</b>	<b>1</b>	<b>80</b>	<b>385</b>	<b>1,104</b>
Income statement	(14)	1	—	(85)	(3)	—	3	(21)	39	(80)
Equity	—	—	(189)	—	—	—	—	(26)	(24)	(239)
Acquisitions and disposals	—	—	—	—	—	—	—	—	(10)	(10)
Exchange and other adjustments	(1)	(1)	136	(35)	10	(16)	—	(1)	(82)	10
	<b>(24)</b>	<b>(56)</b>	<b>2</b>	<b>432</b>	<b>30</b>	<b>57</b>	<b>4</b>	<b>32</b>	<b>308</b>	<b>785</b>
Liabilities	(24)	(56)	—	—	—	—	—	—	—	(80)
Assets	—	—	2	432	30	57	4	32	308	865
<b>At 31st December 2007</b>	<b>(24)</b>	<b>(56)</b>	<b>2</b>	<b>432</b>	<b>30</b>	<b>57</b>	<b>4</b>	<b>32</b>	<b>308</b>	<b>785</b>

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### 18 Deferred tax (continued)

The amount of deferred tax liability expected to be settled after more than 12 months for the Group is £1,949m (2007: £1,468m) and for the Bank is £434m (2007: £24m).

The amount of deferred tax asset expected to be recovered after more than 12 months for the Group is £4,593m (2007: £1,950m) and for the Bank is £1,137m (2007: £740m).

The deferred tax assets balance for the Group includes £2,139m (2007: £450m) which is the excess deferred tax assets over deferred tax liabilities in entities which have suffered a loss in either the current or prior year. This is based on management assessment that it is probable that the relevant entities will have taxable profits against which the temporary differences can be utilised.

Deferred tax assets have not been recognised for the Group in respect of deductible temporary differences (gross) £9m (2007: £247m), unused tax losses (gross) of £4,083m (2007: £1,683m) and unused tax credits of £46m (2007: £126m). Deferred tax assets have not been recognised for the Bank in respect of deductible temporary differences (gross) £nil (2007: £167m), unused tax losses (gross) of £3,906m (2007: £1,176m) and unused tax credits £nil (2007: £55m). The following tax losses of the Group expire: £3,854m in 2028. The other tax losses, tax credits and temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise benefits. The unused tax losses include amounts relating to non-UK branches of Barclays Bank PLC where the future tax benefit might be restricted to the amount in excess of the UK rate.

The amount of temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which deferred tax liabilities have not been recognised in the Group is £8,429m (2007: £5,722m).

### 19 Investment in associates and joint ventures

#### Share of net assets

	Associates		Joint ventures		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
<b>The Group</b>						
<b>At beginning of year</b>	<b>90</b>	<b>74</b>	<b>287</b>	<b>154</b>	<b>377</b>	<b>228</b>
Share of results before tax	25	35	(6)	10	19	45
Share of tax	(3)	(2)	(2)	(1)	(5)	(3)
Share of post-tax results	22	33	(8)	9	14	42
New investments	6	7	27	8	33	15
Acquisitions	62	56	1	150	63	206
Disposals	(20)	(47)	(117)	(72)	(137)	(119)
Exchange and other adjustments	15	(33)	(24)	38	(9)	5
<b>At end of year</b>	<b>175</b>	<b>90</b>	<b>166</b>	<b>287</b>	<b>341</b>	<b>377</b>
	Associates		Joint ventures		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
<b>The Bank</b>						
<b>At beginning of year</b>	<b>7</b>	<b>7</b>	<b>105</b>	<b>90</b>	<b>112</b>	<b>97</b>
New investments	2	7	8	16	10	23
Disposals	–	(7)	(10)	(1)	(10)	(8)
<b>At end of year</b>	<b>9</b>	<b>7</b>	<b>103</b>	<b>105</b>	<b>112</b>	<b>112</b>

The Group has investments in two associates listed on the Johannesburg Stock Exchange. The fair value of the Group's investment in Ambit Properties Limited is £51m (2007: £42m) and in Pinnacle Point Group Limited, acquired during 2008, is £60m.

#### Acquisitions of Joint Ventures and Associates

During the year the Group made additional investments in associates and joint ventures for aggregate cash consideration of £96m (2007: £221m), including new associates and joint ventures amounting to £63m (2007: £206m) primarily relating to Pinnacle Point Group Limited.

#### Goodwill included above:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Cost</b>				
<b>At beginning of year</b>	<b>27</b>	<b>41</b>	<b>27</b>	<b>25</b>
Disposals	–	(17)	–	(1)
Exchange and other adjustments	4	3	4	3
<b>At end of year</b>	<b>31</b>	<b>27</b>	<b>31</b>	<b>27</b>

## 19 Investment in associates and joint ventures (continued)

Summarised financial information of the Group's associates and joint ventures is set out below:

	2008		2007	
	Associates £m	Joint ventures £m	Associates £m	Joint ventures £m
Property, plant and equipment	788	104	588	632
Financial investments	124	–	239	8
Loans to banks and customers	271	2,883	516	2,372
Other assets	1,343	418	1,387	314
<b>Total assets</b>	<b>2,526</b>	<b>3,405</b>	<b>2,730</b>	<b>3,326</b>
Deposits from banks and customers	1,376	2,207	1,515	2,189
Other liabilities	985	890	902	458
Shareholders' equity	165	308	313	679
<b>Total liabilities</b>	<b>2,526</b>	<b>3,405</b>	<b>2,730</b>	<b>3,326</b>
<b>Net income</b>	<b>859</b>	<b>357</b>	<b>528</b>	<b>340</b>
<b>Operating expenses</b>	<b>(732)</b>	<b>(364)</b>	<b>(404)</b>	<b>(292)</b>
<b>Profit before tax</b>	<b>127</b>	<b>(7)</b>	<b>124</b>	<b>48</b>
<b>Profit/(loss) after tax</b>	<b>52</b>	<b>(11)</b>	<b>104</b>	<b>40</b>

The amounts included above, which include the entire assets, liabilities and net income of the investees, not just the Group's share, are based on accounts made up to 31st December 2008 with the exception of certain undertakings for which the amounts are based on accounts made up to dates not earlier than three months before the balance sheet date.

Associates and joint ventures in 2008 includes £1,651m (2007: £1,728m) of assets, £1,525m (2007: £1,537m) of liabilities and £9m (2007: £18m) of profit after tax in associates and joint ventures within the Absa Group.

The Group's share of commitments and contingencies of its associates and joint ventures is £nil (2007: £6m).

## 20 Investments in subsidiaries

Investments in subsidiaries, the principal of which are engaged in banking related activities, are recorded in the balance sheet at historical cost, less dividends received out of the pre-acquisition profits of the subsidiaries and any impairment. At 31st December 2008 the historical cost of investments in subsidiaries was £19,218m (2007: £17,325m), and allowances recognised against these investments was £1,803m (2007: £1,840m) of impairment and £493m (2007: £493m) dividends received out of pre-acquisition profits of the subsidiaries. Details of the principal subsidiaries are shown in Note 42.

## 21 Goodwill

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Net book value</b>				
<b>At beginning of year</b>	<b>7,014</b>	6,092	<b>3,593</b>	3,591
Acquisitions	400	879	–	–
Disposals	(10)	(17)	–	–
Impairment charge	(111)	–	(37)	–
Exchange and other adjustments	332	60	18	2
<b>At end of year</b>	<b>7,625</b>	7,014	<b>3,574</b>	3,593

Goodwill is allocated to business operations according to business segments identified by the Group under IFRS 8, as follows:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
UK Retail Banking	3,139	3,138	3,130	3,130
Barclays Commercial Bank	10	9	–	–
Barclaycard	413	408	220	257
GRCB – Western Europe	705	551	115	96
GRCB – Emerging Markets	292	45	–	–
GRCB – Absa	1,084	1,062	–	–
Barclays Capital	95	147	–	–
Barclays Global Investors	1,496	1,261	15	15
Barclays Wealth	391	393	94	95
<b>Goodwill</b>	<b>7,625</b>	7,014	<b>3,574</b>	3,593



# Notes to the accounts

## For the year ended 31st December 2008

### 21 Goodwill (continued)

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount.

#### Impairment testing of goodwill

The recoverable amount of each operation's goodwill is based on value-in-use or fair value less costs to sell calculations. The calculations are based upon discounting expected pre-tax cash flows at a risk adjusted interest rate appropriate to the cash generating 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 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.

At 31st December 2008, the goodwill allocated to UK Retail Banking was £3,139m (2007: £3,138m) including £3,130m (2007: £3,130m) relating to Woolwich, the goodwill allocated to GRCB – Absa was £1,084m (2007: £1,062m) and the goodwill allocated to Barclays Global Investors was £1,496m (2007: £1,261m). The remaining aggregate of goodwill of £1,915m (2007: £1,561m) consists of balances relating to multiple business operations which are not considered individually significant.

Goodwill impairment of £111m (2007: £nil) reflects the full write-down of £74m relating to EquiFirst, a US non-prime mortgage originator and a partial write-down of £37m relating to FirstPlus following its closure to new business in August 2008.

#### Key assumptions used in impairment testing for significant goodwill

##### UK Retail Banking

The recoverable amount of UK Retail Banking has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a three year period, and a discount rate of 17.48%. For the purposes of the calculations, cash flows beyond that period have been extrapolated using a steady 3% growth rate. The growth rate does not exceed the long-term average growth rate for the market in which UK Retail Banking operates. Management believes that any reasonable possible change in the key assumptions on which UK Retail Banking's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

##### Global Retail and Commercial Banking – Absa

The recoverable amount of GRCB – Absa has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a three year period, and a discount rate of 14.10%. For the purposes of the calculations, cash flows beyond that period have been extrapolated using a growth rate of 8% to cash flows for the two years 2012 to 2013, and a rate of 6% for the ten years 2014 to 2023. The growth rate does not exceed the long-term average growth rate for the market in which GRCB – Absa operates. Management believes that any reasonable possible change in the key assumptions on which GRCB – Absa's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

##### Barclays Global Investors

The recoverable amount of BGI has been determined based on a fair value methodology approach which includes both a discounted cash flow valuation and comparable company valuation multiples based on revenue, EBITDA and assets under management. The calculation uses earnings projections based on financial budgets approved by management covering a three year period and a discount rate of 11.5%. For the purposes of the calculations, cash flows beyond that period have been extrapolated using growth rates of between 2% and 11% for cash flows from 2012 to 2017, and a terminal growth factor of 4% for 2018 and beyond. The growth rate does not exceed the long-term average growth rate for the market in which BGI operates. Management believes that any reasonable possible change in the key assumptions on which BGI's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

### 22 Intangible assets

The Group	2008							Total £m
	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	
<b>Cost</b>								
At 1st January 2008	388	188	244	149	524	126	161	1,780
Acquisitions	–	127	17	6	992	–	210	1,352
Additions/disposals	274	5	–	–	–	–	3	282
Exchange and other adjustments	59	8	–	–	49	47	52	215
<b>At 31st December 2008</b>	<b>721</b>	<b>328</b>	<b>261</b>	<b>155</b>	<b>1,565</b>	<b>173</b>	<b>426</b>	<b>3,629</b>
<b>Accumulated amortisation and impairment</b>								
At 1st January 2008	(163)	(57)	(37)	(38)	(101)	(64)	(38)	(498)
Disposals	11	7	–	–	–	–	–	18
Amortisation charge	(86)	(33)	(14)	(15)	(62)	(22)	(59)	(291)
Impairment release	3	–	–	–	–	–	–	3
Exchange and other adjustments	(49)	14	(1)	(2)	(9)	(30)	(7)	(84)
<b>At 31st December 2008</b>	<b>(284)</b>	<b>(69)</b>	<b>(52)</b>	<b>(55)</b>	<b>(172)</b>	<b>(116)</b>	<b>(104)</b>	<b>(852)</b>
<b>Net book value</b>	<b>437</b>	<b>259</b>	<b>209</b>	<b>100</b>	<b>1,393</b>	<b>57</b>	<b>322</b>	<b>2,777</b>

## 22 Intangible assets (continued)

2008								
The Bank	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
<b>Cost</b>								
<b>At 1st January 2008</b>	314	115	5	–	12	126	10	582
Acquisitions	–	–	–	4	–	–	28	32
Additions/disposals	237	(6)	–	–	–	–	–	231
Exchange and other adjustments	9	1	2	–	4	47	–	63
<b>At 31st December 2008</b>	560	110	7	4	16	173	38	908
<b>Accumulated amortisation and impairment</b>								
<b>At 1st January 2008</b>	(128)	(15)	(2)	–	(3)	(63)	(3)	(214)
Disposals	11	–	–	–	–	–	–	11
Amortisation charge	(74)	(6)	(1)	–	(1)	(22)	(10)	(114)
Impairment release	3	–	–	–	–	–	–	3
Exchange and other adjustments	(16)	(1)	–	–	(1)	(30)	–	(48)
<b>At 31st December 2008</b>	(204)	(22)	(3)	–	(5)	(115)	(13)	(362)
<b>Net book value</b>	356	88	4	4	11	58	25	546
2007								
The Group	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
<b>Cost</b>								
<b>At 1st January 2007</b>	267	123	242	145	467	122	140	1,506
Acquisitions	–	–	–	–	54	–	23	77
Additions	118	56	–	3	–	4	–	181
Exchange and other adjustments	3	9	2	1	3	–	(2)	16
<b>At 31st December 2007</b>	388	188	244	149	524	126	161	1,780
<b>Accumulated amortisation and impairment</b>								
<b>At 1st January 2007</b>	(116)	(29)	(24)	(22)	(64)	(10)	(26)	(291)
Amortisation charge	(45)	(13)	(11)	(15)	(36)	(54)	(12)	(186)
Impairment charge	–	(14)	–	–	–	–	–	(14)
Exchange and other adjustments	(2)	(1)	(2)	(1)	(1)	–	–	(7)
<b>At 31st December 2007</b>	(163)	(57)	(37)	(38)	(101)	(64)	(38)	(498)
<b>Net book value</b>	225	131	207	111	423	62	123	1,282
2007								
The Bank	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
<b>Cost</b>								
<b>At 1st January 2007</b>	215	79	5	–	11	122	23	455
Additions	98	16	–	–	–	4	–	118
Exchange and other adjustments	1	20	–	–	1	–	(13)	9
<b>At 31st December 2007</b>	314	115	5	–	12	126	10	582
<b>Accumulated amortisation and impairment</b>								
<b>At 1st January 2007</b>	(90)	(2)	(1)	–	(2)	(10)	(3)	(108)
Amortisation charge	(37)	–	(1)	–	(1)	(52)	(2)	(93)
Impairment charge	–	(13)	–	–	–	–	–	(13)
Exchange and other adjustments	(1)	–	–	–	–	(1)	2	–
<b>At 31st December 2007</b>	(128)	(15)	(2)	–	(3)	(63)	(3)	(214)
<b>Net book value</b>	186	100	3	–	9	63	7	368

The impairment release detailed above has been included within other operating expenses.

# Notes to the accounts

## For the year ended 31st December 2008

### 23 Property, plant and equipment

	The Group				The Bank		
	Property £m	Equipment £m	Operating leased assets £m	Total £m	Property £m	Operating leased equipment £m	Total £m
<b>2008</b>							
<b>Cost</b>							
<b>At 1st January 2008</b>	2,451	2,995	413	5,859	1,869	1,636	3,505
Acquisitions and disposals	992	218	–	1,210	1	–	1
Additions	493	846	126	1,465	262	396	658
Disposals	(485)	(276)	(235)	(996)	(368)	(185)	(553)
Fully depreciated assets written off	(15)	(7)	–	(22)	(15)	(5)	(20)
Exchange and other adjustments	188	168	–	356	91	73	164
<b>At 31st December 2008</b>	<b>3,624</b>	<b>3,944</b>	<b>304</b>	<b>7,872</b>	<b>1,840</b>	<b>1,915</b>	<b>3,755</b>
<b>Accumulated depreciation and impairment</b>							
<b>At 1st January 2008</b>	(1,044)	(1,804)	(15)	(2,863)	(915)	(1,041)	(1,956)
Acquisitions and disposals	(8)	(12)	–	(20)	(3)	–	(3)
Depreciation charge	(124)	(475)	(31)	(630)	(67)	(234)	(301)
Impairment	–	(33)	–	(33)	–	(3)	(3)
Disposals	168	185	3	356	145	151	296
Fully depreciated assets written off	15	7	–	22	15	5	20
Exchange and other adjustments	(18)	(12)	–	(30)	(5)	(13)	(18)
<b>At 31st December 2008</b>	<b>(1,011)</b>	<b>(2,144)</b>	<b>(43)</b>	<b>(3,198)</b>	<b>(830)</b>	<b>(1,135)</b>	<b>(1,965)</b>
<b>Net book value</b>	<b>2,613</b>	<b>1,800</b>	<b>261</b>	<b>4,674</b>	<b>1,010</b>	<b>780</b>	<b>1,790</b>
	The Group				The Bank		
	Property £m	Equipment £m	Operating leased assets £m	Total £m	Property £m	Operating leased equipment £m	Total £m
<b>2007</b>							
<b>Cost</b>							
<b>At 1st January 2007</b>	2,154	2,429	365	4,948	1,731	1,383	3,114
Acquisitions and disposals	5	13	–	18	3	1	4
Additions	506	638	105	1,249	321	281	602
Disposals	(241)	(112)	(57)	(410)	(194)	(37)	(231)
Fully depreciated assets written off	(1)	(8)	–	(9)	(1)	–	(1)
Exchange and other adjustments	28	35	–	63	9	8	17
<b>At 31st December 2007</b>	<b>2,451</b>	<b>2,995</b>	<b>413</b>	<b>5,859</b>	<b>1,869</b>	<b>1,636</b>	<b>3,505</b>
<b>Accumulated depreciation and impairment</b>							
<b>At 1st January 2007</b>	(993)	(1,454)	(9)	(2,456)	(890)	(866)	(1,756)
Acquisitions and disposals	(1)	(7)	–	(8)	–	–	–
Depreciation charge	(91)	(370)	(6)	(467)	(66)	(191)	(257)
Impairment	(2)	–	–	(2)	(2)	–	(2)
Disposals	58	37	–	95	48	18	66
Fully depreciated assets written off	1	8	–	9	1	1	2
Exchange and other adjustments	(16)	(18)	–	(34)	(6)	(3)	(9)
<b>At 31st December 2007</b>	<b>(1,044)</b>	<b>(1,804)</b>	<b>(15)</b>	<b>(2,863)</b>	<b>(915)</b>	<b>(1,041)</b>	<b>(1,956)</b>
<b>Net book value</b>	<b>1,407</b>	<b>1,191</b>	<b>398</b>	<b>2,996</b>	<b>954</b>	<b>595</b>	<b>1,549</b>

Operating leased assets represent assets such as plant and equipment leased to customers under operating leases.

Certain of the Group's equipment is held on finance leases. See Note 38.

## 24 Financial liabilities designated at fair value

	The Group		The Bank		The Group		The Bank	
	2008				2007			
	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m
Debt securities	61,297	69,197	57,963	65,162	52,320	62,167	51,634	61,769
Deposits	10,518	10,109	7,751	7,419	17,319	18,140	17,575	18,366
Other	5,077	6,761	4,944	6,553	4,850	6,239	4,696	6,048
Financial liabilities designated at fair value	76,892	86,067	70,658	79,134	74,489	86,546	73,905	86,183

At 31 st December 2008, the own credit adjustment arose from the fair valuation of £54.5bn of Barclays Capital structured notes (2007: £40.7bn). The widening of Barclays credit spreads in the year affected the fair value of these notes and as a result revaluation gains of £1,663m were recognised in trading income (2007: £658m).

## 25 Other liabilities

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Accruals and deferred income	6,495	6,075	4,924	3,120
Sundry creditors	6,049	4,356	10,365	7,501
Obligations under finance leases (Note 38)	96	83	6	14
<b>Other liabilities</b>	<b>12,640</b>	10,514	<b>15,295</b>	10,635

Included in the above are Group balances of £11,068m (2007: £9,058m) expected to be settled within no more than 12 months after the balance sheet date; and balances of £1,572m (2007: £1,456m) expected to be settled more than 12 months after the balance sheet date.

Included in the above are Bank balances of £13,286m (2007: £9,027m) expected to be settled within no more than 12 months after the balance sheet date and balances of £2,009m (2007: £1,608m) expected to be settled more than 12 months after the balance sheet date.

Accruals and deferred income included £nil (2007: £102m) in relation to deferred income from investment contracts and £nil (2007: £677m) in relation to deferred income from insurance contracts for the Group. The equivalent balances for the Bank are £nil (2007: £nil).

# Notes to the accounts

## For the year ended 31st December 2008

### 26 Insurance assets and liabilities

#### Insurance assets

Reinsurance assets are £123m (2007: £157m) and relate principally to the Group's long-term business. Reinsurers' share of provisions relating to the Group's short-term business are £32m (2007: £94m). The reinsurance assets expected to be recovered after more than one year are £91m (2007: £63m).

#### Insurance contract liabilities including unit-linked liabilities

Insurance liabilities comprise the following:

	The Group	
	2008 £m	2007 £m
<b>Insurance contract liabilities:</b>		
– linked liabilities	125	1,398
– non-linked liabilities	1,908	2,347
Provision for claims	119	158
<b>Insurance contract liabilities including unit-linked liabilities</b>	<b>2,152</b>	<b>3,903</b>

Insurance contract liabilities relate principally to the Group's long-term business. Insurance contract liabilities associated with the Group's short-term non-life business are £73m (2007: £174m).

#### Movements in insurance liabilities and reinsurance assets

Movements in insurance assets and insurance contract liabilities were as follows:

	The Group					
	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
<b>At beginning of year</b>	<b>3,903</b>	<b>(157)</b>	<b>3,746</b>	3,878	(172)	3,706
Change in year	(1,751)	34	(1,717)	25	15	40
<b>At end of year</b>	<b>2,152</b>	<b>(123)</b>	<b>2,029</b>	3,903	(157)	3,746

#### Assumptions used to measure insurance liabilities

The assumptions that have the greatest effect on the measurement of the amounts recognised above, and the processes used to determine them were as follows:

##### Long-term business – linked and non-linked

Mortality – mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Group's own experience. A margin is added to ensure prudence – for example, future mortality improvements for annuity business.

Renewal expenses level and inflation – expense reserves are a small part of overall insurance liabilities, however, increases in expenses caused by unanticipated inflation or other unforeseen factors could lead to expense reserve increases. Expenses are therefore set using prudent assumptions. Initial renewal expense levels are set by considering expense forecasts for the business and, where appropriate, building in a margin to allow for the increasing burden of fixed costs on the UK closed life book of business. The inflation assumption is set by adding a margin to the market rate of inflation implied by index-linked gilt yields.

##### Short-term business

Short-term business – for single premium policies the proportion of unearned premiums is calculated based on estimates of the frequency and severity of incidents.

##### Changes in assumptions

There have been no changes in assumptions in 2008 that have had a material effect on the financial statements.

#### Uncertainties associated with cash flows related to insurance contracts and risk management activities

##### Long-term insurance contracts (linked and non-linked)

For long-term insurance contracts where death is the insured risk, the most significant factors that could detrimentally affect the frequency and severity of claims are the incidence of disease, such as AIDS, or general changes in lifestyle, such as in eating, exercise and smoking. Where survival is the insured risk, advances in medical care and social conditions are the key factors that increase longevity.

The Group manages its exposure to risk by operating in part as a unit-linked business, prudent product design, applying strict underwriting criteria, transferring risk to reinsurers, managing claims and establishing prudent reserves.

## 26 Insurance assets and liabilities (continued)

### Short-term insurance contracts

For payment protection contracts where inability to make payments under a loan contract is the insured risk, the most significant factors are the health of the policyholder and the possibility of unemployment which depends upon, among other things, long-term and short-term economic factors. The Group manages its exposure to such risks through prudent product design, efficient claims management, prudent reserving methodologies and bases, regular product, economic and market reviews and regular adequacy tests on the size of the reserves.

Absa insures property and motor vehicles, for which the most significant factors that could effect the frequency and severity of claims are climatic change and crime. Absa manages its exposure to risk by diversifying insurance risks accepted and transferring risk to reinsurers.

### Sensitivity analysis

The following table presents the sensitivity of the level of insurance contract liabilities disclosed in this note to movements in the actuarial assumptions used to calculate them. The percentage change in variable is applied to a range of existing actuarial modelling assumptions to derive the possible impact on net profit after tax. The disclosure is not intended to explain the impact of a percentage change in the insurance assets and liabilities disclosed above.

	The Group			
	2008		2007	
	Change in variable %	Net profit after tax impact £m	Change in variable %	Net profit after tax impact £m
Long-term insurance contracts:				
Improving mortality (annuitants only)	10	1	10	21
Worsening of mortality (assured lives only)	10	20	10	29
Worsening of base renewal expense level	20	19	20	43
Worsening of expense inflation rate	10	1	10	10
Short-term insurance contracts:				
Worsening of claim expense assumptions	10	3	10	3

Any change in net profit after tax would result in a corresponding increase or decrease in shareholders' equity.

The above analyses are based on a change in a single assumption while holding all other assumptions constant. In practice this is unlikely to occur.

### Options and guarantees

The Group's contracts do not contain options or guarantees that could confer material risk.

### Concentration of insurance risk

The Group considers that the concentration of insurance risk that is most relevant to the Group financial statements is according to the type of cover offered and the location of insured risk. The following table shows the maximum amounts payable under all of the Group's insurance products. It ignores the probability of insured events occurring and the contribution from investments backing the insurance policies. The table shows the broad product types and the location of the insured risk, before and after the impact of reinsurance that represents the risk that is passed to other insurers.

	The Group					
	2008			2007		
	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m
<b>Total benefits insured by product type</b>						
Long term insurance contracts	19,193	(3,591)	15,602	31,205	(10,497)	20,708
Short term insurance contracts	36,228	(2,735)	33,493	31,464	(1,139)	30,325
<b>Total benefits insured</b>	<b>55,421</b>	<b>(6,326)</b>	<b>49,095</b>	<b>62,669</b>	<b>(11,636)</b>	<b>51,033</b>

	The Group					
	2008			2007		
	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m
<b>Total benefits insured by geographic location</b>						
United Kingdom	8,120	(525)	7,595	22,538	(7,473)	15,065
Other European Union	6,519	(2,305)	4,214	4,304	(2,479)	1,825
Africa	40,782	(3,496)	37,286	35,827	(1,684)	34,143
<b>Total benefits insured</b>	<b>55,421</b>	<b>(6,326)</b>	<b>49,095</b>	<b>62,669</b>	<b>(11,636)</b>	<b>51,033</b>

### Reinsurer credit risk

For the long-term business, reinsurance programmes are in place to restrict the amount of cover on any single life. The reinsurance cover is spread across highly rated companies to diversify the risk of reinsurer solvency. Net insurance reserves include a margin to reflect reinsurer credit risk.



# Notes to the accounts

## For the year ended 31st December 2008

### 27 Subordinated liabilities

Subordinated liabilities comprise dated and undated loan capital as follows:

		The Group		The Bank	
		2008 £m	2007 £m	2008 £m	2007 £m
Undated loan capital	(a)	13,673	6,631	13,738	6,678
Dated loan capital	(b)	16,169	11,519	15,430	11,309
		29,842	18,150	29,168	17,987

#### (a) Undated loan capital

		The Group		The Bank	
	Notes	2008 £m	2007 £m	2008 £m	2007 £m
<b>Non-convertible</b>					
<b>The Bank</b>					
6% Callable Perpetual Core Tier One Notes	a,q	487	392	487	392
6.86% Callable Perpetual Core Tier One Notes (US\$1,000m)	a,q	1,118	624	1,118	624
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	b,r	652	520	652	520
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US\$1,350m)	c,s	1,109	708	1,109	708
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	n,ae	600	526	600	526
7.434% Step-up Callable Perpetual Reserve Capital Instruments (US\$1,250m)	o,af	1,055	660	1,055	660
14% Step-up Callable Perpetual Reserve Capital Instruments	e,t	2,514	—	2,514	—
Junior Undated Floating Rate Notes (US\$121m)	d,u	83	61	148	108
7.7% Undated Subordinated Notes (US\$2,000m)	p,ah	1,644	—	1,644	—
Undated Floating Rate Primary Capital Notes Series 3	d,v	147	147	147	147
9.875% Undated Subordinated Notes		—	319	—	319
9.25% Perpetual Subordinated Bonds (ex-Woolwich plc)	f,w	232	171	232	171
9% Permanent Interest Bearing Capital Bonds	g,x	120	102	120	102
8.25% Undated Subordinated Notes	p,ag	1,092	—	1,092	—
7.125% Undated Subordinated Notes	h,y	620	535	620	535
6.875% Undated Subordinated Notes	i,z	729	657	729	657
6.375% Undated Subordinated Notes	j,aa	526	482	526	482
6.125% Undated Subordinated Notes	k,ab	666	560	666	560
6.5% Undated Subordinated Notes (FFr 1,000m)	l,ac	151	115	151	115
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	m,ad	51	21	51	21
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	m,ad	77	31	77	31
<b>Undated loan capital – non-convertible</b>		<b>13,673</b>	<b>6,631</b>	<b>13,738</b>	<b>6,678</b>

#### Security and subordination

None of the undated loan capital of the Bank is secured.

The Junior Undated Floating Rate Notes (the 'Junior Notes') rank behind the claims against the Bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital.

All other issues of the Bank's undated loan capital rank pari passu with each other and behind the claims of the holders of the Junior Notes, except for the 6% and 6.86% Callable Perpetual Core Tier One Notes (the 'TONs') and the 5.3304%, 5.926%, 6.3688%, 7.434% and 14% Step-up Callable Perpetual Reserve Capital Instruments (the 'RCIs') (such issues, excluding the TONs and the RCIs, being the 'Undated Notes and Loans').

The TONs and the RCIs rank pari passu with each other and behind the claims of the holders of the Undated Notes and Loans.

#### Interest

##### Notes

- These TONs bear a fixed rate of interest until 2032. After that date, in the event that the TONs are not redeemed, the TONs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- These RCIs bear a fixed rate of interest until 2036. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- These RCIs bear a fixed rate of interest until 2016. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- These Notes bear interest at rates fixed periodically in advance, based on London interbank rates.
- These RCIs bear a fixed rate of interest until 2019. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- These Bonds bear a fixed rate of interest until 2021. After that date, in the event that the Bonds are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.
- The interest rate on these Bonds is fixed for the life of this issue.
- These Notes bear a fixed rate of interest until 2020. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.
- These Notes bear a fixed rate of interest until 2015. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

## 27 Subordinated liabilities (continued)

- j These Notes bear a fixed rate of interest until 2017. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.
- k These Notes bear a fixed rate of interest until 2027. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.
- l These Notes bear a fixed rate of interest until 2009. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on European interbank rates.
- m These Loans bear a fixed rate of interest until 2028 based on a US Dollar principal amount, but the interest payments have been swapped, resulting in a Yen interest rate payable, which is fixed periodically in advance based on London interbank rates. After that date, in the event that the Loans are not redeemed, the Loans will bear Yen interest rates fixed periodically in advance, based on London interbank rates.
- n These RCIs bear a fixed rate of interest until 2019. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- o These RCIs bear a fixed rate of interest until 2017. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.
- p These Notes bear a fixed rate of interest until 2018. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance, based on London interbank rates.

The Bank is not obliged to make a payment of interest on its Undated Notes and Loans excluding the 9.25% Perpetual Subordinated Bonds, 7.7% Undated Subordinated Notes and 8.25% Undated Subordinated Notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. The Bank is not obliged to make a payment of interest on its 9.25% Perpetual Subordinated Bonds if, in the immediately preceding 12 months interest period, a dividend has not been paid on any class of its share capital. Interest not so paid becomes payable in each case if such a dividend is subsequently paid or in certain other circumstances. During the year, the Bank declared and paid dividends on its ordinary shares and on all classes of preference shares.

No payment of principal or any interest may be made unless the Bank satisfies a specified solvency test.

The Bank may elect to defer any payment of interest on the 7.7% Undated Subordinated Notes and 8.25% Undated Subordinated Notes. Until such time as any deferred interest has been paid in full, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares, preference shares, or other share capital or satisfy any payments of interest or coupons on certain other junior obligations.

The Bank may elect to defer any payment of interest on the RCIs (b, c, e, n and o above). Any such deferred payment of interest must be paid on the earlier of (i) the date of redemption of the RCIs, (ii) the coupon payment date falling on or nearest to the tenth anniversary of the date of deferral of such payment, and (iii) in respect of e above only, substitution. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

The Bank may elect to defer any payment of interest on the TONs if it determines that it is, or such payment would result in it being, in non-compliance with capital adequacy requirements and policies of the FSA. Any such deferred payment of interest will only be payable on a redemption of the TONs. Until such time as the Bank next makes a payment of interest on the TONs, neither the Bank nor Barclays PLC may (i) declare or pay a dividend, subject to certain exceptions, on any of their respective ordinary shares or Preference Shares, or make payments of interest in respect of the Bank's Reserve Capital Instruments and (ii) certain restrictions on the redemption, purchase or reduction of their respective share capital and certain other securities also apply.

### Repayment

#### Notes

- q These TONs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after June 2032.
- r These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2036.
- s These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2016.
- t These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after June 2019.
- u These Notes are repayable, at the option of the Bank, in whole or in part on any interest payment date.
- v These Notes are repayable, at the option of the Bank, in whole on any interest payment date.
- w These Bonds are repayable, at the option of the Bank, in whole in 2021, or on any fifth anniversary thereafter.
- x These Bonds are repayable, at the option of the Bank, in whole at any time.
- y These Notes are repayable, at the option of the Bank, in whole in 2020, or on any fifth anniversary thereafter.
- z These Notes are repayable, at the option of the Bank, in whole in 2015, or on any fifth anniversary thereafter.
- aa These Notes are repayable, at the option of the Bank, in whole in 2017, or on any fifth anniversary thereafter.
- ab These Notes are repayable, at the option of the Bank, in whole in 2027, or on any fifth anniversary thereafter.
- ac These Notes are repayable, at the option of the Bank, in whole in 2009, or on any fifth anniversary thereafter.
- ad These Loans are repayable, at the option of the Bank, in whole in 2028, or on any fifth anniversary thereafter.
- ae These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2019.
- af These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2017.
- ag These Notes are repayable, at the option of the Bank, in whole on any interest payment date falling in or after December 2018.
- ah These Notes are repayable, at the option of the Bank, in whole on any interest payment date falling in or after April 2018.

In addition, each issue of undated loan capital is repayable, at the option of the Bank, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest.

Any repayments require the prior notification to the FSA.

All issues of undated loan capital have been made in the eurocurrency market and/or under Rule 144A, and no issues have been registered under the US Securities Act of 1933.

# Notes to the accounts

## For the year ended 31st December 2008

### 27 Subordinated liabilities (continued)

#### (b) Dated loan capital

Dated loan capital, issued by the Bank for the development and expansion of the Group's business and to strengthen its capital base, by Barclays Bank Spain SA (Barclays Spain), Barclays Bank of Botswana Ltd (BBB), Barclays Bank Zambia PLC (Barclays Zambia) and Barclays Bank of Kenya (Barclays Kenya) to enhance their respective capital bases and by Absa and Barclays Bank of Ghana Ltd (BBG) for general corporate purposes, comprise:

		The Group		The Bank	
	Notes	2008 £m	2007 £m	2008 £m	2007 £m
<b>Non-convertible</b>					
<b>The Bank</b>					
7.4% Subordinated Notes 2009 (US\$400m)	a	275	200	275	200
Subordinated Fixed to CMS-Linked Notes 2009 (€31m)	b	31	23	31	23
12% Unsecured Capital Loan Stock 2010	a	27	27	27	27
5.75% Subordinated Notes 2011 (€1,000m)	a	943	724	943	724
5.25% Subordinated Notes 2011 (€250m) (ex-Woolwich plc)	a	260	200	260	200
Floating Rate Subordinated Notes 2013 (US\$1,000m)		–	501	–	501
5.015% Subordinated Notes 2013 (US\$150m)	a	112	77	112	77
4.875% Subordinated Notes 2013 (€750m)	a	750	583	750	583
5.5% Subordinated Notes 2013 (DM 500m)		–	196	–	196
Floating Rate Subordinated Step-up Callable Notes 2013 (Yen 5,500m)		–	25	–	25
Floating Rate Subordinated Notes 2013 (AU\$150m)		–	67	–	67
5.93% Subordinated Notes 2013 (AU\$100m)		–	44	–	44
Callable Floating Rate Subordinated Notes 2015 (US\$1,500m)	b,k	1,031	753	1,031	753
4.38% Fixed Rate Subordinated Notes 2015 (US\$75m)	a	88	30	88	30
4.75% Fixed Rate Subordinated Notes 2015 (US\$150m)	a	81	85	81	85
Floating Rate Subordinated Step-up Callable Notes 2016 (US\$750m)	b,k	514	375	514	375
Callable Floating Rate Subordinated Notes 2016 (€1,250m)	b,k	1,211	927	1,211	927
Callable Floating Rate Subordinated Notes 2017 (US\$500m)	b,k	343	250	343	250
10.125% Subordinated Notes 2017 (ex-Woolwich plc)	h,k	109	111	109	111
Floating Rate Subordinated Step-up Callable Notes 2017 (US\$1,500m)	b,k	1,029	749	1,029	749
Floating Rate Subordinated Step-up Callable Notes 2017 (€1,500m)	b,k	1,444	1,106	1,444	1,106
6.05% Fixed Rate Subordinated Notes 2017 (US\$2,250m)	a	1,856	1,125	1,856	1,125
Floating Rate Subordinated Notes 2018 (€40m)	b	38	29	38	29
6% Fixed Rate Subordinated Notes due 2018 (€1,750m)	a	1,767	–	1,767	–
CMS-Linked Subordinated Notes due 2018 (€100m)	b	100	–	100	–
CMS-Linked Subordinated Notes due 2018 (€135m)	b	135	–	135	–
Floating Rate Subordinated Notes 2019 (€50m)	b	47	36	47	36
Callable Fixed/Floating Rate Subordinated Notes 2019 (€1,000m)	i	984	761	984	761
9.5% Subordinated Bonds 2021 (ex-Woolwich plc)	a	298	282	298	282
Subordinated Floating Rate Notes 2021 (€100m)	b	94	72	94	72
Subordinated Floating Rate Notes 2022 (€50m)	b	49	37	49	37
Subordinated Floating Rate Notes 2023 (€50m)	b	48	37	48	37
Fixed/Floating Rate Subordinated Callable Notes 2023	o,k	571	505	571	505
5.75% Fixed Rate Subordinated Notes 2026	a	690	600	690	600
5.4% Reverse Dual Currency Subordinated Loan 2027 (Yen 15,000m)	j	128	71	128	71
6.33% Subordinated Notes 2032	a	53	49	53	49
Subordinated Floating Rate Notes 2040 (€100m)	b	96	73	96	73
Other loans from subsidiaries		–	–	228	579
<b>Barclays Bank SA, Spain (Barclays Spain)</b>					
Subordinated Floating Rate Capital Notes 2011 (€11m)	b	11	10	–	–
<b>Absa</b>					
14.25% Subordinated Callable Notes 2014 (ZAR 3,100m)	c,k	240	253	–	–
10.75% Subordinated Callable Notes 2015 (ZAR 1,100m)	d,k	85	87	–	–
Subordinated Callable Notes 2015 (ZAR 400m)	e,k	30	29	–	–
8.75% Subordinated Callable Notes 2017 (ZAR 1,500m)	f,k	115	111	–	–
Subordinated Callable Notes 2018 (ZAR 3,700m)	e,k	144	–	–	–
8.8% Subordinated Fixed Rate Callable Notes 2019 (ZAR 1,725m)	p,k	146	123	–	–
8.1% Subordinated Callable Notes 2020 (ZAR 2,000m)	g,k	130	138	–	–
<b>Barclays Bank of Ghana Ltd (BBG)</b>					
14% Fixed Rate BBG Subordinated Callable Notes 2016 (GHC 100,000m)	a,k	5	5	–	–
<b>Barclays Bank of Kenya (Barclays Kenya)</b>					
Floating Rate Subordinated Notes 2014 (KES 2,965m)	q	26	8	–	–
<b>Dated loan capital – non-convertible</b>		<b>16,134</b>	<b>11,494</b>	<b>15,430</b>	<b>11,309</b>

## 27 Subordinated liabilities (continued)

		The Group		The Bank	
	Notes	2008 £m	2007 £m	2008 £m	2007 £m
<b>Convertible</b>					
<b>Barclays Bank of Botswana (BBB)</b>					
Subordinated Unsecured Floating Rate Capital Notes 2014 (BWP 190m)	k,l	17	8	–	–
<b>Barclays Bank Zambia PLC (Barclays Zambia)</b>					
Subordinated Unsecured Floating Rate Capital Notes 2015 (ZMK 49,086m)	k,m	7	6	–	–
<b>Absa</b>					
Redeemable cumulative option-holding preference shares (ZAR 147m)	n	11	11	–	–
<b>Total convertible</b>		<b>35</b>	<b>25</b>	<b>–</b>	<b>–</b>

None of the Group's dated loan capital is secured. The debt obligations of the Bank, Barclays Spain, BBG, BBB, Barclays Zambia, Barclays Kenya and Absa rank ahead of the interests of holders of their equity. Dated loan capital of the Bank, Barclays Spain, BBG, BBB, Barclays Zambia, Barclays Kenya and Absa has been issued on the basis that the claims there under are subordinated to the respective claims of their depositors and other unsecured unsubordinated creditors.

### Interest

#### Notes

- a The interest rates on these Notes are fixed for the life of those issues.
- b These Notes bear interest at rates fixed periodically in advance based on London or European interbank rates.
- c These Notes bear a fixed rate of interest until 2009. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference rate for a further period of five years.
- d These Notes bear a fixed rate of interest until 2010. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.
- e These Notes bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.
- f These Notes bear a fixed rate of interest until 2012. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.
- g These Notes bear a fixed rate of interest until 2015. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.
- h These Notes bear a fixed rate of interest until 2012. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.
- i These Notes bear a fixed rate of interest until 2014. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on European interbank rates.
- j This Loan bears a fixed rate of interest based on a US Dollar principal amount, but the interest payments have been swapped, resulting in a Yen interest rate payable which is fixed periodically in advance based on London interbank rates.
- k Repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole.
- l These Notes bear interest at rates fixed periodically in advance based on the Bank of Botswana Certificate Rate. All of these Notes will be compulsorily converted to Preference Shares of BBB, having a total par value equal in sum to the principal amount of Notes outstanding at the time of conversion, should BBB experience pre-tax losses in excess of its retained earnings and other capital surplus accounts.
- m These Notes bear interest at rates fixed periodically in advance based on the Bank of Zambia Treasury Bill rate. All of these Notes will be compulsorily converted to Preference Shares of Barclays Zambia, having a total par value equal in sum to the principal amount of Notes outstanding at the time of conversion, should Barclays Zambia experience pre-tax losses in excess of its retained earnings and other capital surplus accounts.
- n The dividends are compounded and payable semi-annually in arrears on 30th September and 31st March of each year. The shares were issued by Absa Group Limited on 1st July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1st March, 1st June, 1st September or 1st December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.
- o These Notes bear a fixed rate of interest until 2018. After that date in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on London interbank rates.
- p These Notes bear a fixed rate of interest until 2014. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.
- q These Notes bear interest at rates fixed periodically in advance based on the Central Bank of Kenya Treasury Bill rates.

# Notes to the accounts

## For the year ended 31st December 2008

### 27 Subordinated liabilities (continued)

The 7.4% Subordinated Notes 2009 (the '7.4% Notes') issued by the Bank have been registered under the US Securities Act of 1933. All other issues of dated loan capital by the Bank, Barclays Spain, BGC, BBB, Barclays Zambia, Barclays Kenya and Absa, which were made in non-US markets, have not been so registered. With respect to the 7.4% Notes, the Bank is not obliged to make (i) a payment of interest on any interest payment date unless a dividend is paid on any class of share capital and (ii) a payment of principal until six months after the respective maturity date with respect to such Notes.

#### Repayment terms

Unless otherwise indicated, the Group's dated loan capital outstanding at 31st December 2008 is redeemable only on maturity, subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law or, in the case of BBB and Barclays Zambia to certain changes in legislation or regulations.

Any repayments prior to maturity require in the case of the Bank, the prior notification to the FSA, in the case of BBB, the prior approval of the Bank of Botswana, in the case of Barclays Zambia, the prior approval of the Bank of Zambia, and in the case of Absa, the prior approval of the South African Registrar of Banks.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

### 28 Provisions

	Onerous contracts £m	Redundancy and re-structuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
<b>The Group</b>					
<b>At 1st January 2008</b>	64	82	475	209	830
Acquisitions and disposals of subsidiaries	9	(9)	–	(1)	(1)
Exchange	2	–	63	15	80
Additions	12	269	461	102	844
Amounts used	(41)	(213)	(794)	(42)	(1,090)
Unused amounts reversed	–	(11)	(96)	(25)	(132)
Amortisation of discount	4	–	–	–	4
<b>At 31st December 2008</b>	50	118	109	258	535
	Onerous contracts £m	Redundancy and re-structuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
<b>The Bank</b>					
<b>At 1st January 2008</b>	70	67	579	93	809
Acquisitions and disposals of subsidiaries	1	–	(976)	(2)	(977)
Exchange	2	2	105	4	113
Additions	12	248	456	61	777
Amounts used	(41)	(197)	26	(15)	(227)
Unused amounts reversed	–	(10)	(90)	(9)	(109)
Amortisation of discount	4	–	–	–	4
<b>At 31st December 2008</b>	48	110	100	132	390

## 28 Provisions (continued)

The Group	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
<b>At 1st January 2007</b>	71	102	46	243	462
Acquisitions and disposals of subsidiaries	1	(2)	–	74	73
Exchange	–	–	8	5	13
Additions	18	117	560	121	816
Amounts used	(25)	(117)	(113)	(60)	(315)
Unused amounts reversed	(5)	(18)	(26)	(174)	(223)
Amortisation of discount	4	–	–	–	4
<b>At 31st December 2007</b>	64	82	475	209	830

The Bank	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
<b>At 1st January 2007</b>	70	85	45	143	343
Acquisitions and disposals of subsidiaries	–	–	–	–	–
Exchange	–	(3)	8	2	7
Additions	18	115	555	29	717
Amounts used	(22)	(113)	(4)	(32)	(171)
Unused amounts reversed	–	(17)	(25)	(49)	(91)
Amortisation of discount	4	–	–	–	4
<b>At 31st December 2007</b>	70	67	579	93	809

Provisions expected to be recovered or settled for the Group within no more than 12 months after 31st December 2008 were £333m (2007: £645m).

Provisions expected to be recovered or settled for the Bank within no more than 12 months after 31st December 2008 were £255m (2007: £686m).

There were no undrawn contractually committed facilities and guarantees provided within the Group against undrawn facilities on ABS CDO Super Senior positions (2007: £360m).

There were no undrawn contractually committed facilities and guarantees provided within the Bank against undrawn facilities on ABS CDO Super Senior positions (2007: £469m).

Sundry provisions are made with respect to commission clawbacks, warranties and litigation claims.



# Notes to the accounts

## For the year ended 31st December 2008

### 29 Securitisations

The Group was party to securitisation transactions involving Barclays residential mortgage loans, business loans and credit card balances. In addition, the Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions.

In these transactions, the assets, or interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, or to a trust which then transfers its beneficial interests to a special purpose entity, which then issues floating rate debt securities to third-party investors.

Securitisations may, depending on the individual arrangement result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Group transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual right 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 following table shows the carrying amount of securitised assets, stated at the amount of the Group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the balance sheet:

	The Group			
	2008		2007	
	Carrying amount of assets £m	Contractual amount of associated liabilities £m	Carrying amount of assets £m	Contractual amount of associated liabilities £m
<b>Loans and advances to customers</b>				
Residential mortgage loans	12,754	(13,172)	16,000	(16,786)
Credit card receivables	1,888	(2,109)	4,217	(3,895)
Other personal lending	212	(256)	422	(485)
Wholesale and corporate loans and advances	7,702	(8,937)	8,493	(8,070)
<b>Total</b>	<b>22,556</b>	<b>(24,474)</b>	<b>29,132</b>	<b>(29,236)</b>
<b>Assets designated at fair value through profit or loss</b>				
Retained interest in residential mortgage loans	316	–	895	–

	The Bank			
	2008		2007	
	Carrying amount of assets £m	Contractual amount of associated liabilities £m	Carrying amount of assets £m	Contractual amount of associated liabilities £m
<b>Loans and advances to customers</b>				
Residential mortgage loans	8,073	(8,491)	11,569	(12,219)
Credit card receivables	1,888	(2,109)	4,217	(3,895)
Other personal lending	–	–	–	–
Wholesale and corporate loans and advances	7,702	(8,937)	8,493	(8,070)
<b>Total</b>	<b>17,663</b>	<b>(19,537)</b>	<b>24,279</b>	<b>(24,184)</b>
<b>Assets designated at fair value through profit or loss</b>				
Retained interest in residential mortgage loans	316	–	895	–

Retained interests in residential mortgage loans are securities which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets. The total amount of the loans was £31,734m (2007: £23,097m) for the Group and £31,734m (2007: £23,097m) for the Bank. The retained interest is initially recorded as an allocation of the original carrying amount based on the relative fair values of the portion derecognised and the portion retained.

### 30 Retirement benefit obligations

#### Pension schemes

The UK Retirement Fund (UKRF), which is the main scheme of the Group, amounting to 91 % of all the Group's schemes in terms of benefit obligations, comprises ten sections.

#### The 1964 Pension Scheme

Most employees recruited before July 1997 are members of this non-contributory defined benefit scheme. Pensions are calculated by reference to service and pensionable salary and are normally subject to a deduction from State pension age.

#### The Retirement Investment Scheme (RIS)

A defined contribution plan for most joiners between July 1997 and 1st October 2003. This was closed to new entrants on 1st October 2003 and the large majority of existing members of the RIS transferred to **afterwork** in respect of future benefit accrual with effect from 1st January 2004. There are now no longer any active members of the RIS.

#### The Pension Investment Plan (PIP)

A defined contribution plan created from 1st July 2001 to provide benefits for certain employees of Barclays Capital.

#### **afterwork**

Combines a contributory cash balance element with a voluntary defined contribution element. New employees since 1st October 2003 are eligible to join **afterwork**. In addition, the large majority of active members of the RIS (now closed) were transferred to **afterwork** in respect of future benefit accrual after 1st January 2004.

#### Career Average Section

The Career Average Section was established in the UKRF with effect from 1st May 2004 following the transfer of members from the Woolwich Pension Fund. The Career Average Section is a non-contributory career average scheme and was closed to new entrants on 1st December 2006.

#### 1951 Fund Section, AP89 Section, BCPS Section, CCS Section and Mercantile Section

Five new sections were established in the UKRF with effect from 31st March 2007 following the merger of the UKRF with five smaller schemes sponsored from within the Group. All five sections are closed to new members.

The 1951 Fund Section, AP89 Section and Mercantile Section provide final salary benefits calculated by reference to service and pensionable salary.

The BCPS and CCS Section provide defined contribution benefits. The benefits built up in these sections in relation to service before 6th April 1997 are subject to a defined benefit minimum.

In addition, the costs of ill-health retirements and death in service benefits are generally borne by the UKRF for each of the ten sections. From November 2008, members were given the option to pay member contributions by way of salary sacrifice.

#### Governance

The assets of the UKRF are held separately from the assets of the Group and are administered by trustees.

Barclays Pension Fund Trustees Ltd (BPFTL) acts as corporate trustee for the UKRF. BPFTL is a private limited company, incorporated on 20th December 1990, and is a subsidiary of Barclays Bank PLC.

As the corporate trustee for the UKRF, BPFTL is the legal owner of the assets of the UKRF and BPFTL holds these assets in trust for the beneficiaries of the scheme.

BPFTL comprises nine Directors, of which six are Employer Directors selected by the Bank and three are Employee Directors nominated by the Pension Fund Advisory Committee (PFAC). Employee Directors are selected from those eligible active employees and pensioner members who apply to be considered for the role.

Employee Director vacancies are advertised to all eligible active and pensioner members. This enables any eligible member with an interest in becoming an Employee Director to express that interest and be considered for the role. The PFAC provides the mechanism through which Employee Directors are selected. The PFAC will accept nominations from eligible members and select from amongst all properly nominated candidates.

There are also three Alternate Employer Directors and three Alternate Employee Directors. The selection process for these appointments are as detailed above. The role of alternate directors is to provide cover for individual directors, should they not be available for meetings.

Under the Pensions Act 2004 the Bank and the Trustee must agree on the funding rate (including a recovery plan to fund any deficit against the scheme specific statutory funding objective). The first ongoing funding valuation to be completed under this legislation had an effective date of 30th September 2007.

In addition to the UKRF, there are other defined benefit and defined contribution schemes in the UK and overseas. The same approach to pensions governance applies to the other schemes in the UK but different legislation covers schemes outside of the UK where in most cases the Bank has the power to determine the funding rate.

# Notes to the accounts

## For the year ended 31st December 2008

### 30 Retirement benefit obligations (continued)

The following tables present an analysis of defined benefit obligation and fair value of plan assets for all the Group's pension schemes and post-retirement benefits (the latter are unfunded) and present the amounts recognised in the income statement including those related to post-retirement health care.

#### Income statement charge

	2008			2007		
	Pensions £m	Other post- retirement benefits £m	Total £m	Pensions £m	Other post- retirement benefits £m	Total £m
<b>The Group</b>						
<b>Staff cost charge</b>						
Current service cost	299	2	301	332	2	334
Interest cost	991	8	999	905	8	913
Expected return on scheme assets	(1,175)	–	(1,175)	(1,074)	–	(1,074)
Recognised actuarial gain	(23)	(1)	(24)	(1)	–	(1)
Past service cost	2	(8)	(6)	20	–	20
Curtailment or settlements	(5)	–	(5)	(32)	–	(32)
<b>Total included in staff costs</b>	<b>89</b>	<b>1</b>	<b>90</b>	<b>150</b>	<b>10</b>	<b>160</b>

Staff costs are included in other operating expenses.

#### Change in benefit obligation

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>The Group</b>										
<b>Benefit obligation at beginning of the year</b>	<b>(16,563)</b>	<b>(913)</b>	<b>(60)</b>	<b>(98)</b>	<b>(17,634)</b>	<b>(17,256)</b>	<b>(894)</b>	<b>(97)</b>	<b>(76)</b>	<b>(18,323)</b>
Current service cost	(276)	(23)	–	(2)	(301)	(317)	(15)	(1)	(1)	(334)
Interest cost	(946)	(45)	(3)	(5)	(999)	(869)	(36)	(4)	(4)	(913)
Past service cost	(2)	(11)	7	–	(6)	(20)	–	–	–	(20)
Curtailments or settlements	7	2	–	–	9	35	1	–	–	36
Actuarial gain/(loss)	2,807	–	11	(5)	2,813	1,292	25	19	1	1,337
Contributions by plan participants	(20)	(3)	–	–	(23)	(19)	(2)	–	–	(21)
Benefits paid	598	42	2	9	651	589	31	2	15	637
Business combinations	–	–	–	–	–	–	–	–	–	–
Exchange and other adjustments	–	(269)	–	(24)	(293)	2	(23)	21	(33)	(33)
<b>Benefit obligation at end of the year</b>	<b>(14,395)</b>	<b>(1,220)</b>	<b>(43)</b>	<b>(125)</b>	<b>(15,783)</b>	<b>(16,563)</b>	<b>(913)</b>	<b>(60)</b>	<b>(98)</b>	<b>(17,634)</b>

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>The Bank</b>										
<b>Benefit obligation at beginning of the year</b>	<b>(16,563)</b>	<b>(198)</b>	<b>(75)</b>	<b>(15)</b>	<b>(16,851)</b>	<b>(16,912)</b>	<b>(191)</b>	<b>(88)</b>	<b>(18)</b>	<b>(17,209)</b>
Current service cost	(276)	(8)	–	–	(284)	(317)	(6)	(1)	–	(324)
Interest cost	(946)	(13)	(3)	(1)	(963)	(869)	(10)	(3)	(1)	(883)
Past service cost	(2)	–	7	–	5	(20)	–	–	–	(20)
Curtailments or settlements	7	–	–	–	7	35	–	–	–	35
Actuarial gain	2,807	10	11	–	2,828	1,292	12	17	–	1,321
Contributions by plan participants	(20)	(1)	–	–	(21)	(19)	–	–	–	(19)
Benefits paid	598	9	1	6	614	589	4	1	2	596
Business combinations	–	–	–	–	–	(342)	–	–	–	(342)
Exchange and other adjustments	–	(68)	5	(7)	(70)	–	(7)	(1)	2	(6)
<b>Benefit obligation at end of the year</b>	<b>(14,395)</b>	<b>(269)</b>	<b>(54)</b>	<b>(17)</b>	<b>(14,735)</b>	<b>(16,563)</b>	<b>(198)</b>	<b>(75)</b>	<b>(15)</b>	<b>(16,851)</b>

### 30 Retirement benefit obligations (continued)

The benefit obligation arises from plans that are wholly unfunded and wholly or partly funded as follows:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Unfunded obligations	(297)	(248)	(81)	(89)
Wholly or partly funded obligations	(15,486)	(17,386)	(14,654)	(16,762)
<b>Total</b>	<b>(15,783)</b>	<b>(17,634)</b>	<b>(14,735)</b>	<b>(16,851)</b>

#### Change in plan assets

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
The Group	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>Fair value of plan assets at beginning of the year</b>	<b>17,231</b>	<b>796</b>	–	–	<b>18,027</b>	16,761	745	–	–	17,506
Expected return on plan assets	1,134	41	–	–	1,175	1,041	33	–	–	1,074
Employer contribution	336	71	2	9	418	355	34	2	15	406
Settlements	–	(2)	–	–	(2)	–	(1)	–	–	(1)
Contributions by plan participants	20	3	–	–	23	19	2	–	–	21
Actuarial loss	(4,534)	(121)	–	–	(4,655)	(332)	(11)	–	–	(343)
Benefits paid	(598)	(42)	(2)	(9)	(651)	(589)	(31)	(2)	(15)	(637)
Business combinations	–	–	–	–	–	–	–	–	–	–
Exchange and other adjustments	(52)	213	–	–	161	(24)	25	–	–	1
<b>Fair value of plan assets at the end of the year</b>	<b>13,537</b>	<b>959</b>	–	–	<b>14,496</b>	17,231	796	–	–	18,027

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
The Bank	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>Fair value of plan assets at beginning of the year</b>	<b>17,231</b>	<b>141</b>	–	–	<b>17,372</b>	16,460	135	–	–	16,595
Expected return on plan assets	1,134	11	–	–	1,145	1,041	9	–	–	1,050
Employer contribution	336	25	1	6	368	355	10	1	2	368
Settlements	–	–	–	–	–	–	–	–	–	–
Contributions by plan participants	20	1	–	–	21	19	–	–	–	19
Asset loss	(4,534)	(65)	–	–	(4,599)	(332)	(2)	–	–	(334)
Benefits paid	(598)	(9)	(1)	(6)	(614)	(589)	(4)	(1)	(2)	(596)
Business combinations	–	–	–	–	–	277	–	–	–	277
Exchange and other adjustments	(52)	56	–	–	4	–	(7)	–	–	(7)
<b>Fair value of plan assets at the end of the year</b>	<b>13,537</b>	<b>160</b>	–	–	<b>13,697</b>	17,231	141	–	–	17,372

# Notes to the accounts

## For the year ended 31st December 2008

### 30 Retirement benefit obligations (continued)

#### Amounts recognised on balance sheet

The pension and post-retirement benefit assets and liabilities recognised on the balance sheet are as follows:

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>The Group</b>										
<b>Benefit obligation at end of period</b>	<b>(14,395)</b>	<b>(1,220)</b>	<b>(43)</b>	<b>(125)</b>	<b>(15,783)</b>	<b>(16,563)</b>	<b>(913)</b>	<b>(60)</b>	<b>(98)</b>	<b>(17,634)</b>
<b>Fair value of plan assets at end of period</b>	<b>13,537</b>	<b>959</b>	<b>–</b>	<b>–</b>	<b>14,496</b>	<b>17,231</b>	<b>796</b>	<b>–</b>	<b>–</b>	<b>18,027</b>
Net (deficit)/asset	(858)	(261)	(43)	(125)	(1,287)	668	(117)	(60)	(98)	393
Unrecognised actuarial (gains)/losses	(167)	150	(11)	23	(5)	(1,912)	7	(3)	14	(1,894)
<b>Net recognised liability</b>	<b>(1,025)</b>	<b>(111)</b>	<b>(54)</b>	<b>(102)</b>	<b>(1,292)</b>	<b>(1,244)</b>	<b>(110)</b>	<b>(63)</b>	<b>(84)</b>	<b>(1,501)</b>
Recognised assets	–	65	–	–	65	–	36	–	–	36
Recognised liability	(1,025)	(176)	(54)	(102)	(1,357)	(1,244)	(146)	(63)	(84)	(1,537)
<b>Net recognised liability</b>	<b>(1,025)</b>	<b>(111)</b>	<b>(54)</b>	<b>(102)</b>	<b>(1,292)</b>	<b>(1,244)</b>	<b>(110)</b>	<b>(63)</b>	<b>(84)</b>	<b>(1,501)</b>

	2008					2007				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
<b>The Bank</b>										
<b>Benefit obligation at end of period</b>	<b>(14,395)</b>	<b>(269)</b>	<b>(54)</b>	<b>(17)</b>	<b>(14,735)</b>	<b>(16,563)</b>	<b>(198)</b>	<b>(75)</b>	<b>(15)</b>	<b>(16,851)</b>
<b>Fair value of plan assets at end of period</b>	<b>13,537</b>	<b>160</b>	<b>–</b>	<b>–</b>	<b>13,697</b>	<b>17,231</b>	<b>141</b>	<b>–</b>	<b>–</b>	<b>17,372</b>
Net (deficit)/asset	(858)	(109)	(54)	(17)	(1,038)	668	(57)	(75)	(15)	521
Unrecognised actuarial (gains)/losses	(167)	66	(10)	9	(102)	(1,912)	11	(1)	6	(1,896)
<b>Net recognised liability</b>	<b>(1,025)</b>	<b>(43)</b>	<b>(64)</b>	<b>(8)</b>	<b>(1,140)</b>	<b>(1,244)</b>	<b>(46)</b>	<b>(76)</b>	<b>(9)</b>	<b>(1,375)</b>
Recognised assets	–	14	–	–	14	–	6	–	–	6
Recognised liability	(1,025)	(57)	(64)	(8)	(1,154)	(1,244)	(52)	(76)	(9)	(1,381)
<b>Net recognised liability</b>	<b>(1,025)</b>	<b>(43)</b>	<b>(64)</b>	<b>(8)</b>	<b>(1,140)</b>	<b>(1,244)</b>	<b>(46)</b>	<b>(76)</b>	<b>(9)</b>	<b>(1,375)</b>

The UKRF funded status, as measured using the IAS 19 assumptions, has decreased from a £0.7bn surplus at 31st December 2007 to a deficit of £0.9bn at 31st December 2008.

The assumptions used for the current year and prior year are detailed on the next page. Among the reasons for this change were the large loss on the assets over the year and, to a lesser extent, a strengthening of the allowance made for future improvements in mortality. Offsetting these were the increase in AA long-term corporate bond yields which resulted in a higher discount rate of 6.75% (31st December 2007: 5.82%), a decrease in the inflation assumption to 3.16% (31st December 2007: 3.45%) and contributions paid.

### 30 Retirement benefit obligations (continued)

#### Assumptions

Obligations arising under defined benefit schemes are actuarially valued using the projected unit credit method. Under this method, where a defined benefit scheme is closed to new members, such as in the case of the 1964 Pension Scheme, the current service cost expressed as a percentage of salary is expected to increase in the future, although this higher rate will be applied to a decreasing payroll. The latest actuarial IAS valuations were carried out as at 31 st December using the following assumptions:

	UK schemes		Overseas schemes	
	2008 % p.a.	2007 % p.a.	2008 % p.a.	2007 % p.a.
<b>The Group</b>				
Discount rate	6.75	5.82	7.09	7.51
Rate of increase in salaries	3.66	3.95	5.93	5.60
Inflation rate	3.16	3.45	3.98	4.13
Rate of increase for pensions in payment	3.06	3.45	3.17	3.55
Rate of increase for pensions in deferment	3.16	3.30	4.37	2.50
Initial health care inflation	8.00	8.00	9.00	10.00
Long-term health care inflation	5.00	5.00	5.01	5.01
Expected return on plan assets	6.80	6.70	7.95	7.84
	UK schemes		Overseas schemes	
	2008 % p.a.	2007 % p.a.	2008 % p.a.	2007 % p.a.
<b>The Bank</b>				
Discount rate	6.75	5.82	6.10	6.28
Rate of increase in salaries	3.66	3.95	4.40	4.40
Inflation rate	3.16	3.45	2.60	2.67
Rate of increase for pensions in payment	3.06	3.30	1.49	1.46
Rate of increase for pensions in deferment	3.16	3.45	2.00	0.42
Initial health care inflation	8.00	8.00	8.98	9.96
Long-term health care inflation	5.00	5.00	5.15	5.10
Expected return on plan assets	6.80	6.70	6.84	6.70

The expected return on plan assets assumption is weighted on the basis of the fair value of these assets. Health care inflation assumptions are weighted on the basis of the health care cost for the period. All other assumptions are weighted on the basis of the defined benefit obligation at the end of the period.

The UK Schemes discount rate assumption is based on a liability-weighted rate derived from an AA corporate bond yield curve.

The overseas health care inflation assumptions relate to the US and Mauritius.

#### Mortality assumptions

The post-retirement mortality assumptions used in valuing the liabilities of the UKRF were based on the standard 2000 series tables as published by the Institute and Faculty of Actuaries. These tables are considered to be most relevant to the population of the UKRF based on their mortality history. These were then adjusted in line with the actual experience of the UKRF's own pensioners relative to the standard table. An allowance has been made for future mortality improvements based on the medium cohort projections published by the CMIB subject to a floor of 1 % pa on future improvements. On this basis the post-retirement mortality assumptions for the UKRF includes:

	2008	2007	2006	2005	2004
<b>Longevity at 60 for current pensioners (years)</b>					
– Males	27.4	26.7	25.8	25.8	25.7
– Females	28.5	27.9	29.5	29.5	29.4
<b>Longevity at 60 for future pensioners currently aged 40 (years)</b>					
– Males	29.5	28.0	27.1	27.1	27.0
– Females	30.5	29.1	30.7	30.6	30.6



# Notes to the accounts

## For the year ended 31st December 2008

### 30 Retirement benefit obligations (continued)

#### Sensitivity analysis

Sensitivity analysis for each of the principal assumptions used to measure the benefit obligation of the UKRF are as follows:

	Impact on UKRF benefit obligation	
	(Decrease)/ Increase %	(Decrease)/ Increase £bn
0.5% increase to:		
– Discount rate	(8.5)	(1.2)
– Rate of inflation	8.8	1.3
– Rate of salary growth	1.0	0.2
1 year increase to longevity at 60	2.5	0.4

#### Post-retirement health care

A one percentage point change in assumed health care trend rates, assuming all other assumptions remain constant would have the following effects for 2008:

	1% increase £m	1% decrease £m
<b>The Group</b>		
Effect on total of service and interest cost components	1	(1)
Effect on post-retirement benefit obligation	17	(14)
<b>The Bank</b>		
Effect on total of service and interest cost components	1	–
Effect on post-retirement benefit obligation	7	(6)

#### Assets

A long-term strategy has been set for the asset allocation of the UKRF which comprises a mixture of equities, bonds, property and other appropriate assets. This recognises that different asset classes are likely to produce different long-term returns and some asset classes may be more volatile than others.

The long-term strategy ensures that investments are adequately diversified. Asset managers are permitted some flexibility to vary the asset allocation from the long-term strategy within control ranges agreed with the trustee from time to time.

The UKRF also employs derivative instruments, where appropriate, to achieve a desired exposure or return, or to match assets more closely to liabilities. The value of assets shown below reflects the actual physical assets held by the scheme, with any derivative holdings reflected on a mark to market basis. The expected return on asset assumptions, both for individual asset classes and overall, have been based on the portfolio of assets created after allowing for the net impact of the derivatives on the risk and return profile of the holdings.

The value of the assets of the schemes, their percentage in relation to total scheme assets, and their expected rate of return at 31st December 2008 and 31st December 2007 were as follows:

	2008								
	UK schemes			Overseas schemes			Total		
	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %
<b>The Group</b>									
Equities	5,813	43	8.5	217	23	9.3	6,030	42	8.5
Bonds	6,360	47	5.3	166	17	6.2	6,526	45	5.3
Property	1,214	9	7.2	16	2	13.4	1,230	8	7.3
Derivatives	(420)	(3)	–	–	–	–	(420)	(3)	–
Cash	(131)	(1)	2.0	415	43	7.6	284	2	3.9
Other	701	5	7.4	145	15	6.4	846	6	7.2
<b>Fair value of plan assets<sup>a</sup></b>	<b>13,537</b>	<b>100</b>	<b>6.8</b>	<b>959</b>	<b>100</b>	<b>8.0</b>	<b>14,496</b>	<b>100</b>	<b>6.9</b>

#### Note

<sup>a</sup> Excludes £675m (2007: £782m) representing the money purchase assets of the UKRF.

### 30 Retirement benefit obligations (continued)

2007									
	UK schemes			Overseas schemes			Total		
	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %
<b>The Group</b>									
Equities	7,467	43	8.3	441	55	8.4	7,908	44	8.3
Bonds	7,445	43	5.1	300	38	7.6	7,745	43	5.2
Property	1,712	10	7.0	16	2	11.5	1,728	10	7.0
Derivatives	(12)	—	—	—	—	—	(12)	—	—
Cash	284	2	5.1	42	5	5.6	326	1	5.2
Other	335	2	5.3	(3)	—	—	332	2	5.4
<b>Fair value of plan assets <sup>a</sup></b>	<b>17,231</b>	<b>100</b>	<b>6.7</b>	<b>796</b>	<b>100</b>	<b>7.8</b>	<b>18,027</b>	<b>100</b>	<b>6.8</b>

2008									
	UK schemes			Overseas schemes			Total		
	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %
<b>The Bank</b>									
Equities	5,813	43	8.5	61	38	7.6	5,874	43	8.5
Bonds	6,360	47	5.3	62	39	5.2	6,422	47	5.3
Property	1,214	9	7.2	3	2	10.7	1,217	9	7.2
Derivatives	(420)	(3)	—	—	—	—	(420)	(3)	—
Cash	(131)	(1)	2.0	26	16	3.5	(105)	(1)	1.6
Other	701	5	7.4	8	5	9.8	709	5	7.4
<b>Fair value of plan assets <sup>a</sup></b>	<b>13,537</b>	<b>100</b>	<b>6.8</b>	<b>160</b>	<b>100</b>	<b>6.8</b>	<b>13,697</b>	<b>100</b>	<b>6.7</b>

2007									
	UK schemes			Overseas schemes			Total		
	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %
<b>The Bank</b>									
Equities	7,467	43	8.3	66	47	7.5	7,533	43	8.3
Bonds	7,445	43	5.1	49	35	6.2	7,494	43	5.1
Property	1,712	10	7.0	3	2	7.3	1,715	10	7.0
Derivatives	(12)	—	—	—	—	—	(12)	—	—
Cash	284	2	5.1	17	12	4.2	301	2	5.1
Other	335	2	5.3	6	4	8.6	341	2	5.4
<b>Fair value of plan assets <sup>a</sup></b>	<b>17,231</b>	<b>100</b>	<b>6.7</b>	<b>141</b>	<b>100</b>	<b>6.7</b>	<b>17,372</b>	<b>100</b>	<b>6.7</b>

#### Note

<sup>a</sup> Excludes £675m (2007: £782m) representing the money purchase assets of the UKRF.

# Notes to the accounts

## For the year ended 31st December 2008

### 30 Retirement benefit obligations (continued)

The UKRF plan assets include £27m relating to UK private equity investments (2007: £39m) and £735m relating to overseas private equity investments (2007: £664m). These are disclosed within Equities.

Amounts included in the Group fair value of plan assets include £5m (2007: £6m) relating to shares in Barclays Group, £11m (2007: £6m) relating to bonds issued by the Barclays Group, £nil (2007: £nil) relating to other investments in the Barclays Group, and £17m (2007: £10m) relating to property occupied by Group companies.

Amounts included in the Bank fair value of plan assets include £1m (2007: £1m) relating to property occupied by Bank companies.

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

The Group actual return on plan assets was a decrease of £3,480m (2007: £731m increase). The Bank actual return on plan assets was a decrease of £3,454m (2007: £716m increase).

#### Actuarial gains and losses

The actuarial gains and losses arising on plan liabilities and plan assets are as follows:

	UK schemes				Overseas schemes				Total			
The Group	2008 £m	2007 £m	2006 £m	2005 £m	2008 £m	2007 £m	2006 £m	2005 £m	2008 £m	2007 £m	2006 £m	2005 £m
<b>Present value of obligations</b>	<b>(14,438)</b>	(16,623)	(17,353)	(18,252)	<b>(1,345)</b>	(1,011)	(970)	(1,017)	<b>(15,783)</b>	(17,634)	(18,323)	(19,269)
<b>Fair value of plan assets</b>	<b>13,537</b>	17,231	16,761	15,571	<b>959</b>	796	745	819	<b>14,496</b>	18,027	17,506	16,390
<b>Net (deficit)/surplus in the plans</b>	<b>(901)</b>	608	(592)	(2,681)	<b>(386)</b>	(215)	(225)	(198)	<b>(1,287)</b>	393	(817)	(2,879)
<b>Experience gains and (losses) on plan liabilities</b>												
– amount	<b>(81)</b>	(297)	48	(2)	<b>(96)</b>	(79)	(54)	(2)	<b>(177)</b>	(376)	(6)	(4)
– as percentage of plan liabilities	<b>(1%)</b>	(2%)	–	–	<b>(7%)</b>	(8%)	(6%)	–	<b>(1%)</b>	(2%)	–	–
<b>Difference between actual and expected return on plan assets</b>												
– amount	<b>(4,534)</b>	(332)	423	1,599	<b>(121)</b>	(11)	25	2	<b>(4,655)</b>	(343)	448	1,601
– as percentage of plan assets	<b>(33%)</b>	(2%)	3%	10%	<b>(13%)</b>	–	3%	–	<b>(32%)</b>	(2%)	3%	10%
The Bank	2008 £m	2007 £m	2006 £m	2005 £m	2008 £m	2007 £m	2006 £m	2005 £m	2008 £m	2007 £m	2006 £m	2005 £m
<b>Present value of obligations</b>	<b>(14,449)</b>	(16,638)	(17,000)	(17,865)	<b>(286)</b>	(213)	(209)	(223)	<b>(14,735)</b>	(16,851)	(17,209)	(18,088)
<b>Fair value of plan assets</b>	<b>13,537</b>	17,231	16,460	15,305	<b>160</b>	141	135	122	<b>13,697</b>	17,372	16,595	15,427
<b>Net (deficit)/surplus in the plans</b>	<b>(912)</b>	593	(540)	(2,560)	<b>(126)</b>	(72)	(74)	(101)	<b>(1,038)</b>	521	(614)	(2,661)
<b>Experience gains and (losses) on plan liabilities</b>												
– amount	<b>(81)</b>	(299)	47	(2)	<b>(96)</b>	(9)	(15)	(9)	<b>(177)</b>	(308)	32	(11)
– as percentage of plan liabilities	<b>(1%)</b>	(2%)	–	–	<b>(34%)</b>	(4%)	(7%)	(4%)	<b>(1%)</b>	(2%)	–	–
<b>Difference between actual and expected return on plan assets</b>												
– amount	<b>(4,534)</b>	(332)	417	1,571	<b>(65)</b>	(2)	4	3	<b>(4,599)</b>	(334)	421	1,574
– as percentage of plan assets	<b>(33%)</b>	(2%)	3%	10%	<b>(41%)</b>	(1%)	3%	2%	<b>(34%)</b>	(2%)	3%	10%

### 30 Retirement benefit obligations (continued)

#### Funding

The most recent triennial funding valuation of the UK Retirement Fund was performed with an effective date of 30th September 2007. In compliance with the Pensions Act 2004, the Group and the Trustee have agreed a scheme specific funding target, statement of funding principles, and a schedule of contributions. This agreement forms the basis of the Group's commitment that the fund has sufficient assets to make payments to members in respect of their accrued benefits as and when they fall due. This funding valuation uses a discount rate that reflects a prudent expectation of long-term future investment returns from the current and assumed future investment strategy, and takes into account projected future salary increases when assessing liabilities arising from accrued service.

As at 30th September 2007 the funding valuation showed a surplus of £0.2bn. The Scheme Actuary prepares an annual update of the funding position as at 30th September. The first annual update was carried out as at 30th September 2008 and showed a deficit of £2.2bn.

The Group has agreed funding contributions which, in aggregate, are no less than those which are sufficient to meet the Group's share of the cost of benefits accruing over each year. The Group has, in the recent past, chosen to make funding contributions in excess of this, more consistent with the IAS service cost.

Defined benefit contributions paid with respect to the UKRF were as follows:

	£m
Contributions paid	
<b>2008</b>	<b>336</b>
2007	355
2006	351

Excluding the UKRF, the Group is expected to pay contributions of approximately £2m to UK schemes and £53m to overseas schemes in 2009.

Excluding the UKRF, the Bank is expected to pay contributions of approximately £1m to UK schemes and £12m to overseas schemes in 2009.

The total contribution to be paid in 2009 to the UKRF is not expected to be significantly different than in previous years.

### 31 Ordinary shares, share premium and preference shares

#### Called up share capital

##### Ordinary shares

The authorised ordinary share capital of the Bank, as at 31st December 2008, was 3,000 million (2007: 3,000 million) ordinary shares of £1 each.

During the year, the Bank issued 1 million ordinary shares for cash consideration of £17m.

##### Preference shares

The authorised preference share capital of Barclays Bank PLC, as at 31st December 2008, was 1,000 Preference Shares (2007: 1,000) of £1; 400,000 Preference Shares of €100 each (2007: 400,000); 400,000 Preference Shares of £100 each (2007: 400,000); 400,000 Preference Shares of US\$100 each (2007: 400,000); 300 million Preference Shares of US\$0.25 each (2007: 150 million).

The issued preference share capital of Barclays Bank PLC, as at 31st December 2008, comprised 1,000 (2007: 1,000) Sterling Preference Shares of £1 each; 240,000 (2007: 240,000) Euro Preference Shares of €100 each; 75,000 (2007: 75,000) Sterling Preference Shares of £100 each; 100,000 (2007: 100,000) US Dollar Preference Shares of US\$100 each; 237 million (2007: 131 million) US Dollar Preference Shares of US\$0.25 each.

	2008 £m	2007 £m
Called up share capital, allotted and fully paid		
At beginning of year	<b>2,336</b>	2,329
Issued for cash	<b>2</b>	7
<b>At end of year</b>	<b>2,338</b>	2,336
Called up preference share capital, allotted and fully paid		
At beginning of year	<b>46</b>	34
Issued for cash	<b>14</b>	12
<b>At end of year</b>	<b>60</b>	46
<b>Called up share capital</b>	<b>2,398</b>	2,382

#### Share premium

	2008 £m	2007 £m
<b>At beginning of year</b>	<b>10,751</b>	9,452
Ordinary shares issued for cash	<b>15</b>	104
Preference shares issued for cash	<b>1,294</b>	1,195
<b>At end of year</b>	<b>12,060</b>	10,751

# Notes to the accounts

## For the year ended 31st December 2008

### 31 Ordinary shares, share premium and preference shares (continued)

#### Sterling £1 preference shares

1,000 Sterling cumulative callable preference shares of £1 each (the '£1 Preference Shares') were issued on 31st December 2004 at nil premium.

The £1 Preference Shares entitle the holders thereof to receive sterling cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a rate reset semi-annually equal to the sterling interbank offered rate for six-month sterling deposits.

Barclays Bank PLC shall be obliged to pay such dividends if (1) it has profits available for the purpose of distribution under the Companies Act 1985 as at each dividend payment date and (2) it is solvent on the relevant dividend payment date, provided that a capital regulations condition is satisfied on such dividend payment date. The dividends shall not be due and payable on the relevant dividend payment date except to the extent that Barclays Bank PLC could make such payment and still be solvent immediately thereafter. Barclays Bank PLC shall be considered solvent on any date if (1) it is able to pay its debts to senior creditors as they fall due and (2) its auditors have reported within the previous six months that its assets exceed its liabilities. If Barclays Bank PLC shall not pay, or shall pay only in part, a dividend for a period of seven days or more after the due date for payment, the holders of the £1 Preference Shares may institute proceedings for the winding-up of Barclays Bank PLC. No remedy against Barclays Bank PLC shall be available to the holder of any £1 Preference Shares for the recovery of amounts owing in respect of £1 Preference Shares other than the institution of proceedings for the winding-up of Barclays Bank PLC and/or proving in such winding-up. On a winding-up or other return of capital (other than a redemption or purchase by Barclays Bank PLC of any of its issued shares, or a reduction of share capital, permitted by the Articles of Barclays Bank PLC and under applicable law), the assets of Barclays Bank PLC available to shareholders shall be applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of Barclays Bank PLC then in issue ranking junior to the £1 Preference Shares on such a return of capital and *pari passu* on such a return of capital with the holders of any other class of shares in the capital of Barclays Bank PLC then in issue (other than any class of shares in the capital of Barclays Bank PLC then in issue ranking in priority to the £1 Preference Shares on a winding-up or other such return of capital), in payment to the holders of the £1 Preference Shares of a sum equal to the aggregate of: (1) an amount equal to the dividends accrued thereon for the then current dividend period (and any accumulated arrears thereof) to the date of the commencement of the winding-up or other such return of capital; and (2) an amount equal to £1 per £1 Preference Share. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the £1 Preference Shares will have no right or claim to any of the remaining assets of Barclays Bank PLC and will not be entitled to any further participation in such return of capital. The £1 Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, subject to the Companies Act and its Articles. Holders of the £1 Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC.

#### Euro Preference Shares

100,000 Euro 4.875% non-cumulative callable preference shares of €100 each (the '4.875% Preference Shares') were issued on 8th December 2004 for a consideration of €993.6m (£688.4m), of which the nominal value was €10m and the balance was share premium. The 4.875% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.875% per annum on the amount of €10,000 per preference share until 15th December 2014, and thereafter quarterly at a rate reset quarterly equal to 1.05% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.875% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2014, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

140,000 Euro 4.75% non-cumulative callable preference shares of €100 each (the '4.75% Preference Shares') were issued on 15th March 2005 for a consideration of €1,383.3m (£966.7m), of which the nominal value was €14m and the balance was share premium. The 4.75% Preference Shares entitle the holders thereof to receive Euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.75% per annum on the amount of €10,000 per preference share until 15th March 2020, and thereafter quarterly at a rate reset quarterly equal to 0.71% per annum above the Euro interbank offered rate for three-month Euro deposits.

The 4.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th March 2020, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

#### Sterling Preference Shares

75,000 Sterling 6.0% non-cumulative callable preference shares of £100 each (the '6.0% Preference Shares') were issued on 22nd June 2005 for a consideration of £732.6m, of which the nominal value was £7.5m and the balance was share premium. The 6.0% Preference Shares entitle the holders thereof to receive Sterling non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 6.0% per annum on the amount of £10,000 per preference share until 15th December 2017, and thereafter quarterly at a rate reset quarterly equal to 1.42% per annum above the London interbank offered rate for three-month Sterling deposits.

The 6.0% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2017, and on each dividend payment date thereafter at £10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

#### US Dollar Preference Shares

100,000 US Dollar 6.278% non-cumulative callable preference shares of US\$100 each (the '6.278% Preference Shares'), represented by 100,000 American Depositary Shares, Series 1, were issued on 8th June 2005 for a consideration of US\$995.4m (£548.1m), of which the nominal value was US\$10m and the balance was share premium. The 6.278% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a fixed rate of 6.278% per annum on the amount of US\$10,000 per preference share until 15th December 2034, and thereafter quarterly at a rate reset quarterly equal to 1.55% per annum above the London interbank offered rate for three-month US Dollar deposits.

The 6.278% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2034, and on each dividend payment date thereafter at US\$10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

30 million US Dollar 6.625% non-cumulative callable preference shares of US\$0.25 each (the '6.625% Preference Shares'), represented by 30 million American Depositary Shares, Series 2, were issued on 25th and 28th April 2006 for a consideration of US\$727m (£406m), of which the nominal value was US\$7.5m and the balance was share premium. The 6.625% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 6.625% per annum on the amount of US\$25 per preference share.

The 6.625% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th September 2011, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

### 31 Ordinary shares, share premium and preference shares (continued)

55 million US Dollar 7.1% non-cumulative callable preference shares of US\$0.25 each (the '7.1% Preference Shares'), represented by 55 million American Depositary Shares, Series 3, were issued on 13th September 2007 for a consideration of US\$1,335m (£657m), of which the nominal value was US\$13.75m and the balance was share premium. The 7.1% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.1% per annum on the amount of US\$25 per preference share.

The 7.1% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15th December 2012, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

46 million US Dollar 7.75% non-cumulative callable preference shares of US\$0.25 each (the '7.75% Preference Shares'), represented by 46 million American Depositary Shares, Series 4, were issued on 7th December 2007 for a consideration of US\$1,116m (£550m), of which the nominal value was US\$11.5m and the balance was share premium. The 7.75% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.75% per annum on the amount of US\$25 per preference share.

The 7.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15th December 2013, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

106 million US Dollar 8.125% non-cumulative callable preference shares of US\$0.25 each (the '8.125% Preference Shares'), represented by 106 million American Depositary Shares, Series 5, were issued on 11th April 2008 and 25th April 2008 for a total consideration of US\$2,650m (£1,345m), of which the nominal value was US\$26.5m and the balance was share premium. The 8.125% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 8.125% per annum on the amount of US\$25 per preference share.

The 8.125% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15th June 2013, and on each dividend payment date thereafter at US\$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

No redemption or purchase of any 4.875% Preference Shares, the 4.75% Preference Shares, the 6.0% Preference Shares, the 6.278% Preference Shares, the 6.625% Preference Shares, the 7.1% Preference Shares, the 7.75% Preference Shares and the 8.125% Preference Shares (together the 'Preference Shares') may be made by Barclays Bank PLC without the prior notification to the UK FSA and any such redemption will be subject to the Companies Act and the Articles of Barclays Bank PLC.

On a winding-up of Barclays Bank PLC or other return of capital (other than a redemption or purchase of shares of Barclays Bank PLC, or a reduction of share capital), a holder of Preference Shares will rank in the application of assets of Barclays Bank PLC available to shareholders (1) junior to the holder of any shares of Barclays Bank PLC in issue ranking in priority to the Preference Shares, (2) equally in all respects with holders of other preference shares and any other shares of Barclays Bank PLC in issue ranking *pari passu* with the Preference Shares and (3) in priority to the holders of ordinary shares and any other shares of Barclays Bank PLC in issue ranking junior to the Preference Shares.

The holders of the £400m 6% Callable Perpetual Core Tier One Notes and the US\$1,000m 6.86% Callable Perpetual Core Tier One Notes of Barclays Bank PLC (together, the 'TONs') and the holders of the US\$1,250m 8.55% Step-up Callable Perpetual Reserve Capital Instruments, the US\$750m 7.375% Step-up Callable Perpetual Reserve Capital Instruments, the £850m 7.50% Step-up Callable Perpetual Reserve Capital Instruments, the £500m 5.3304% Step-up Callable Perpetual Reserve Capital Instruments, the US\$1,350m 5.926% Step-up Callable Perpetual Reserve Capital Instruments, the £500m 6.3688% Step-up Callable Perpetual Reserve Capital Instruments, the US\$1,250m 7.434% Step-up Callable Perpetual Reserve Capital Instruments and the £3,000m 14% Step-up Callable Perpetual Reserve Capital Instruments of Barclays Bank PLC (together, the 'RCIs') would, for the purposes only of calculating the amounts payable in respect of such securities on a winding-up of Barclays Bank PLC, subject to limited exceptions and to the extent that the TONs and the RCIs are then in issue, rank *pari passu* with the holders of the most senior class or classes of preference shares then in issue in the capital of Barclays Bank PLC. Accordingly, the holders of the preference shares would rank equally with the holders of such TONs and RCIs on such a winding-up of Barclays Bank PLC (unless one or more classes of shares of Barclays Bank PLC ranking in priority to the preference shares are in issue at the time of such winding-up, in which event the holders of such TONs and RCIs would rank equally with the holders of such shares and in priority to the holders of the preference shares).

Subject to such ranking, in such event, holders of the preference shares will be entitled to receive out of assets of Barclays Bank PLC available for distributions to shareholders, liquidating distributions in the amount of €10,000 per 4.875% Preference Share, €10,000 per 4.75% Preference Share, £10,000 per 6.0% Preference Share, US\$10,000 per 6.278% Preference Share, US\$25 per 6.625% Preference Share, US\$25 per 7.1% Preference Share, US\$25 per 7.75% Preference Share and US\$0.25 per 8.125% Preference Shares, plus, in each case, an amount equal to the accrued dividend for the then current dividend period to the date of the commencement of the winding-up or other such return of capital. If a dividend is not paid in full on any preference shares on any dividend payment date, then a dividend restriction shall apply.

This dividend restriction will mean that neither Barclays Bank PLC nor Barclays PLC may (a) declare or pay a dividend (other than payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by Barclays Bank PLC to Barclays PLC or to a wholly owned subsidiary) on any of their respective ordinary shares, other preference shares or other share capital or (b) redeem, purchase, reduce or otherwise acquire any of their respective share capital, other than shares of Barclays Bank PLC held by Barclays PLC or a wholly owned subsidiary, until the earlier of (1) the date on which Barclays Bank PLC next declares and pays in full a preference dividend and (2) the date on or by which all the preference shares are redeemed in full or purchased by Barclays Bank PLC.

Holders of the preference shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC. Barclays Bank PLC is not permitted to create a class of shares ranking as regards participation in the profits or assets of Barclays Bank PLC in priority to the preference shares, save with the sanction of a special resolution of a separate general meeting of the holders of the preference shares (requiring a majority of not less than three-fourths of the holders of the preference shares voting at the separate general meeting), or with the consent in writing of the holders of three-fourths of the preference shares.

Except as described above, the holders of the preference shares have no right to participate in the surplus assets of Barclays Bank PLC.



# Notes to the accounts

## For the year ended 31st December 2008

### 32 Reserves

#### Other reserves

	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
<b>The Group</b>				
<b>At 1st January 2008</b>	111	26	(307)	(170)
Net (losses)/gains from changes in fair value	(1,752)	252	–	(1,500)
Net (gains)/losses transferred to net profit	(212)	19	–	(193)
Currency translation differences	–	–	2,307	2,307
Losses transferred to net profit due to impairment	382	–	–	382
Changes in insurance liabilities	17	–	–	17
Net gains transferred to net profit due to fair value hedging	(2)	–	–	(2)
Tax	207	(165)	840	882
<b>At 31st December 2008</b>	<b>(1,249)</b>	<b>132</b>	<b>2,840</b>	<b>1,723</b>

	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
<b>The Bank</b>				
<b>At 1st January 2008</b>	121	(18)	125	228
Net (losses)/gains from changes in fair value	(590)	489	–	(101)
Net (gains)/losses transferred to net profit	(146)	63	–	(83)
Currency translation differences	–	–	142	142
Losses transferred to net profit due to impairment	219	–	–	219
Tax	163	(222)	25	(34)
<b>At 31st December 2008</b>	<b>(233)</b>	<b>312</b>	<b>292</b>	<b>371</b>

	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
<b>The Group</b>				
<b>At 1st January 2007</b>	184	(230)	(438)	(484)
Net gains from changes in fair value	385	182	–	567
Net (gains)/losses transferred to net profit	(560)	198	–	(362)
Currency translation differences	–	–	29	29
Losses transferred to net profit due to impairment	13	–	–	13
Changes in insurance liabilities	22	–	–	22
Net losses transferred to net profit due to fair value hedging	68	–	–	68
Tax	(1)	(124)	102	(23)
<b>At 31st December 2007</b>	<b>111</b>	<b>26</b>	<b>(307)</b>	<b>(170)</b>

	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
<b>The Bank</b>				
<b>At 1st January 2007</b>	(7)	(129)	84	(52)
Net gains from changes in fair value	279	253	–	532
Net (gains)/losses transferred to net profit	(158)	39	–	(119)
Currency translation differences	–	–	41	41
Losses transferred to net profit due to impairment	13	–	–	13
Tax	(6)	(181)	–	(187)
<b>At 31st December 2007</b>	<b>121</b>	<b>(18)</b>	<b>125</b>	<b>228</b>

The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's and the Bank's net investment in foreign operations, net of the effects of hedging.

The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transaction affects profit or loss.

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.

### 32 Reserves (continued)

#### Transfers from cash flow hedging reserve

Transfers from the cash flow hedging reserve to the income statement were: Interest income: £4m loss (2007: £93m loss), interest expense: £74m loss (2007: £11m gain), net trading income: £119m gain (2007: £100m loss), administrative and general expenses: £60m loss (2007: £16m loss), and for the Bank, interest income: £2m gain (2007: £29m loss), interest expense: £nil (2007: £15m gain), net trading income: £5m loss (2007: £9m) and administrative and general expenses: £60m loss (2007: £16m loss).

	The Group Retained earnings £m	The Bank Retained earnings £m
<b>Retained earnings</b>		
<b>At 1st January 2008</b>	<b>14,222</b>	<b>6,805</b>
Profit attributable to equity holders	4,846	6,157
Equity-settled share schemes	463	51
Tax on equity-settled shares schemes	(4)	2
Other taxes	(52)	(1)
Capital injection from Barclays PLC	5,137	5,137
Vesting of Barclays PLC shares under share-based payment schemes	(437)	(93)
Dividends paid	(1,160)	(1,160)
Dividends on Preference Shares and other shareholders' equity	(502)	(502)
Other	(56)	26
<b>At 31st December 2008</b>	<b>22,457</b>	<b>16,422</b>

	The Group Retained earnings £m	The Bank Retained earnings £m
<b>Retained earnings</b>		
<b>At 1st January 2007</b>	<b>11,556</b>	<b>4,146</b>
Profit attributable to equity holders	4,749	4,792
Equity-settled share schemes	567	116
Tax on equity-settled shares schemes	28	(5)
Capital injection from Barclays PLC	1,434	1,434
Vesting of Barclays PLC shares under share-based payment schemes	(524)	(116)
Dividends paid	(3,287)	(3,287)
Dividends on Preference Shares and other shareholders' equity	(345)	(348)
Other	44	73
<b>At 31st December 2007</b>	<b>14,222</b>	<b>6,805</b>

The Group operates in a number of countries subject to regulations under which a local subsidiary has to maintain a minimum level of capital. The current policy of the Group is that local capital requirements are met, as far as possible, by the retention of profit. Certain countries operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. It is not possible to determine the amount of profit retained and other reserves that are restricted by these regulations, but the net profit retained of overseas subsidiaries, associates and joint ventures at 31st December 2008 totalled £4,581m (2007: £7,311m). If such overseas reserves were to be remitted, other tax liabilities, which have not been provided for in the accounts, might arise.

### 33 Other shareholders' equity

	The Group £m	The Bank £m
<b>At 1st January 2008</b>	<b>2,687</b>	<b>2,751</b>
Appropriations	23	23
Other movements	(146)	(146)
<b>At 31st December 2008</b>	<b>2,564</b>	<b>2,628</b>

	The Group £m	The Bank £m
<b>At 1st January 2007</b>	<b>2,534</b>	<b>2,598</b>
Appropriations	8	8
Other movements	145	145
<b>At 31st December 2007</b>	<b>2,687</b>	<b>2,751</b>

# Notes to the accounts

## For the year ended 31 st December 2008

### 33 Other shareholders' equity (continued)

Included in other shareholders' equity are:

Issuances of reserve capital instruments which bear a fixed rate of interest ranging between 7.375%-8.55% until 2010 or 2011. After these dates, in the event that the reserve capital instruments are not redeemed, they will bear interest at rates fixed periodically in advance, based on London or European interbank rates. These instruments are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after June or December 2010 or 2011. The Bank may elect to defer any payment of interest on the reserve capital instruments for any period of time. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

Issuance of capital notes which bear interest at rates fixed periodically in advance, based on London interbank rates. These notes are repayable in each case, at the option of the Bank, in whole on any interest payment date. The Bank is not obliged to make a payment of interest on its capital notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC.

### 34 Minority interests

	The Group	
	2008 £m	2007 £m
<b>At beginning of year</b>	<b>1,949</b>	<b>1,685</b>
Share of profit after tax	403	377
Dividend and other payments	(134)	(131)
Equity issued by subsidiaries	4	137
Available for sale reserve: net (loss)/gain from changes in fair value	(1)	1
Cash flow hedges: net gain/(loss) from changes in fair value	76	(16)
Currency translation differences	59	16
Additions	–	27
Disposals	(11)	(111)
Other	27	(36)
<b>At end of year</b>	<b>2,372</b>	<b>1,949</b>

### 35 Contingent liabilities and commitments

#### Contingent liabilities and commitments

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Acceptances and endorsements	585	365	546	332
Guarantees and letters of credit pledged as collateral security	15,652	12,973	13,325	10,106
Securities lending arrangements	38,290	22,719	38,290	22,719
Other contingent liabilities	11,783	9,717	8,869	8,463
<b>Contingent liabilities</b>	<b>66,310</b>	<b>45,774</b>	<b>61,030</b>	<b>41,620</b>
Documentary credits and other short-term trade related transactions	859	522	571	372
Undrawn note issuance and revolving underwriting facilities:				
Forward asset purchases and forward deposits placed	291	283	36	273
Standby facilities, credit lines and other	259,666	191,834	188,474	186,492
<b>Total commitments</b>	<b>260,816</b>	<b>192,639</b>	<b>189,081</b>	<b>187,137</b>

#### Nature of instruments

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

The Group facilitates securities lending arrangements for its investment management clients whereby securities held by funds are lent to third parties. The borrowers provide the funds with collateral in the form of cash or other assets equal to at least 100% of the securities lent plus a margin of at least 2% up to 8%. Over the period of the loan, the funds may make margin calls to the extent that the collateral is less than the market value of the securities lent. Amounts disclosed above represent the total market value of the lent securities at 31 st December 2008. The market value of collateral held by the funds was £39,690m (2007: £23,559m).

### 35 Contingent liabilities and commitments (continued)

Other contingent liabilities include transaction related customs and performance bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

#### Capital commitments

At 31st December 2008 the Group commitments for capital expenditure under contract amounted to £48m (2007: £6m). At 31st December 2008 the Bank commitments for capital expenditure under contract amounted to £48m (2007: £6m).

#### Assets pledged

Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to derivatives. The disclosure includes any asset transfers associated with liabilities under repurchase agreements and securities lending transactions.

The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Trading portfolio assets	81,186	76,226	42,327	49,873
Loans and advances	28,789	32,846	23,893	28,008
Available for sale investments	32,321	16,378	27,255	15,272
Other	3,812	580	–	189
<b>Assets pledged</b>	<b>146,108</b>	<b>126,030</b>	<b>93,475</b>	<b>93,342</b>

#### Collateral held as security for assets

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, the Group is allowed to resell or repledge the collateral held. The fair value at the balance sheet date of collateral accepted and repledged to others was as follows:

	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
Fair value of securities accepted as collateral	424,819	343,986	369,171	298,398
Of which fair value of securities repledged/transferred to others	374,222	269,157	290,937	240,642

# Notes to the accounts

## For the year ended 31st December 2008

### 36 Legal proceedings

Barclays has for some time been party to proceedings, including a class action, in the United States against a number of defendants following the collapse of Enron; the class action claim is commonly known as the Newby litigation. On 20th July 2006 Barclays received an Order from the United States District Court for the Southern District of Texas Houston Division which dismissed the claims against Barclays PLC, Barclays Bank PLC and Barclays Capital Inc. in the Newby litigation. On 4th December 2006 the Court stayed Barclays dismissal from the proceedings and allowed the plaintiffs to file a supplemental complaint. On 19th March 2007 the United States Court of Appeals for the Fifth Circuit issued its decision on an appeal by Barclays and two other financial institutions contesting a ruling by the District Court allowing the Newby litigation to proceed as a class action. The Court of Appeals held that because no proper claim against Barclays and the other financial institutions had been alleged by the plaintiffs, the case could not proceed against them. The plaintiffs applied to the United States Supreme Court for a review of this decision. On 22nd January 2008, the United States Supreme Court denied the plaintiffs' request for review. Following the Supreme Court's decision, the District Court ordered a further briefing concerning the status of the plaintiffs' claims. Barclays is seeking the dismissal of the plaintiffs' claims. Barclays considers that the Enron related claims against it are without merit and is defending them vigorously. It is not possible to estimate Barclays possible loss in relation to these matters, nor the effect that they might have upon operating results in any particular financial period.

Like other UK financial services institutions, the Group faces numerous County Court claims and complaints by customers who allege that its unauthorised overdraft charges either contravene the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCR) or are unenforceable penalties or both. In July 2007, by agreement with all parties, the OFT commenced proceedings against seven banks and one building society, including Barclays, to resolve the matter by way of a 'test case' process. Preliminary issues hearings took place in January, July and December 2008 with judgments handed down in April and October 2008 and January 2009 (a further judgment not concerning Barclays terms). As to current terms, in April 2008 the Court held in favour of the banks on the issue of the penalty doctrine. The OFT did not appeal that decision. In the same judgment the Court held in favour of the OFT on the issue of the applicability of the UTCCR. The banks appealed that decision. As to past terms, in a judgment on 8th October 2008, the Court held that Barclays historic terms, including those of Woolwich, were not capable of being penalties. The OFT indicated at the January 2009 hearing that it was not seeking permission to appeal the Court's findings in relation to the applicability of the penalty doctrine to historic terms. Accordingly, it is now clear that no declarations have or will be made against Barclays that any of its unauthorised overdraft terms assessed in the test case constitute unenforceable penalties and that the OFT will not pursue this aspect of the test case further. The proceedings will now concentrate exclusively on UTCCR issues. The banks' appeal against the decision in relation to the applicability of the UTCCR (to current and historic terms) took place at a hearing in late October 2008. On 26th February 2009 the Court of Appeal dismissed the banks' appeal, holding, in a judgment of broad application, that the relevant charges were not exempt from the UTCCR. The banks will petition the House of Lords for leave to appeal the decision. It is likely that the proceedings will still take a significant period of time to conclude. Pending resolution of the test case process, existing and new claims in the County Courts remain stayed, and there is an FSA waiver of the complaints handling process (which is reviewable in July 2009) and a standstill of Financial Ombudsman Service decisions. The Group is defending the test case vigorously. It is not practicable to estimate the Group's possible loss in relation to these matters, nor the effect that they may have upon operating results in any particular financial period.

Barclays is engaged in various other litigation proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against it which arise in the ordinary course of business. Barclays does not expect the ultimate resolution of any of the proceedings to which Barclays is party to have a significant adverse effect on the financial position of the Group and Barclays has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

### 37 Competition and regulatory matters

The scale of regulatory change remains challenging, arising in part from the implementation of some key European Union (EU) directives. Many changes to financial services legislation and regulation have come into force in recent years and further changes will take place in the near future. Concurrently, there is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in the UK and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and beyond the Group's control but could have an impact on the Group's businesses and earnings.

In September 2005, the Office of Fair Trading (OFT) received a super-complaint from the Citizens Advice Bureau relating to payment protection insurance (PPI). As a result, the OFT commenced a market study on PPI in April 2006. In October 2006 the OFT announced the outcome of the market study and the OFT referred the PPI market to the UK Competition Commission (CC) for an in-depth inquiry in February 2007. In June 2008, the CC published its provisional findings. The CC published its final report into the PPI market on 29th January 2009. The CC's conclusion is that the businesses which offer PPI alongside credit face little or no competition when selling PPI to their credit customers. The CC has set out a package of measures which it considers will introduce competition into the market (the 'Remedies'). The Remedies, which are expected to be implemented (following consultation) in 2010, are: a ban on sale of PPI at the point of sale; a prohibition on the sale of single premium PPI; mandatory personal PPI quotes to customers; annual statements for all regular premium policies, including the back book (for example credit card and mortgage protection policies); measures to ensure that improved information is available to customers; obliging providers to give information to the OFT to monitor the Remedies and to provide claims ratios to any person on request. Barclays is reviewing the report and considering the next steps, including how this might affect the Group's different products.

In October 2006, the FSA published the outcome of its broad industry thematic review of PPI sales practices in which it concluded that some firms fail to treat customers fairly and that the FSA would strengthen its actions against such firms. Tackling poor PPI sales practices remains a priority for the FSA, with their most recent update on their thematic work published in September 2008. Barclays voluntarily complied with the FSA's request to cease selling single premium PPI by the end of January 2009. There has been no enforcement action against Barclays in respect of its PPI products. The Group has cooperated fully with these investigations into PPI and will continue to do so.

The OFT has carried out investigations into Visa and MasterCard credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeals Tribunal in June 2006. The OFT is progressing its investigations in the Visa interchange case and a second MasterCard interchange case in parallel and both are ongoing. The outcome is not known but these investigations may have an impact on the consumer credit industry in general and therefore on the Group's business in this sector. In February 2007 the OFT announced that it was expanding its investigation into interchange rates to include debit cards.

In September 2006, the OFT announced that it had decided to undertake a fact find on the application of its statement on credit card fees to current account unauthorised overdraft fees. The fact find was completed in March 2007. On 29th March 2007, the OFT announced its decision to conduct a formal investigation into the fairness of bank current account charges. The OFT initiated a market study into personal current accounts (PCAs) in the UK on 26th April 2007. The study's focus was PCAs but it also included an examination of other retail banking products, in particular savings accounts, credit cards, personal loans and mortgages in order to take into account the competitive dynamics of UK retail banking. On 16th July 2008, the OFT published its market study report, in which it concluded that certain features of the UK PCA market were not working well for consumers. The OFT reached the provisional view that some form of regulatory intervention is necessary in the UK PCA market. On 16th July 2008, the OFT also announced a consultation to seek views on the findings and possible measures to address the issues raised in its report. The consultation period closed on 31st October 2008. The Group has participated fully in the market study process and will continue to do so.

US laws and regulations require compliance with US economic sanctions, administered by the Office of Foreign Assets Control, against designated foreign countries, nationals and others. HM Treasury regulations similarly require compliance with sanctions adopted by the UK government. The Group has been conducting an internal review of its conduct with respect to US Dollar payments involving countries, persons and entities subject to these sanctions and has been reporting to governmental authorities about the results of that review. The Group received inquiries relating to these sanctions and certain US Dollar payments processed by its New York branch from the New York County District Attorney's Office and the US Department of Justice, which along with other authorities, has been reported to be conducting investigations of sanctions compliance by non-US financial institutions. The Group has responded to those inquiries and is cooperating with the regulators, the Department of Justice and the District Attorney's Office in connection with their investigations of Barclays conduct with respect to sanctions compliance. Barclays has also received a formal notice of investigation from the FSA, and has been keeping the FSA informed of the progress of the US investigations and Barclays internal review. Barclays review is ongoing. It is currently not possible to predict the ultimate resolution of the issues covered by Barclays review and the investigations, including the timing and potential financial impact of any resolution, which could be substantial.

The Financial Services Compensation Scheme provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. During the year, a number of institutions, including Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki 'Icesave', and London Scottish Bank plc, were declared in default by the FSA. In order to meet its obligations to the depositors of these institutions, the FSCS has borrowed £19.7 billion from HM Treasury, which is on an interest only basis until September 2011. These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the above named institutions. The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs. Individual institutions make payments based on their level of market participation (in the case of deposits, the proportion that their protected deposits represent of total market protected deposits) at 31st December each year. If an institution is a market participant on this date it is obligated to pay a levy. Barclays Bank PLC was a market participant at 31st December 2007 and 2008. The Group has accrued £101m for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31st March 2010. The accrual includes estimates for the interest FSCS will pay on the loan and estimates of Barclays market participation in the relevant periods. Interest will continue to accrue on the HM Treasury loan to the FSCS until September 2011 and will form part of future FSCS management expenses levies. If the assets of the defaulting institutions are insufficient to repay the HM Treasury loan in 2011, the FSCS will agree a schedule of repayments with HM Treasury, which will be recouped from the industry in the form of additional levies. At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Barclays market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

# Notes to the accounts

## For the year ended 31st December 2008

### 38 Leasing

The Group and the Bank are both lessor and lessee under finance and operating leases, providing asset financing for their customers and leasing assets for their own use. In addition, assets leased by the Group and the Bank may be sublet to other parties. An analysis of the impact of these transactions on the Group and the Bank balance sheet and income statement is as follows:

#### (a) As Lessor

##### Finance lease receivables

The Group and the Bank specialise in asset-based lending and work with a broad range of international technology, industrial equipment and commercial companies to provide customised finance programmes to assist manufacturers, dealers and distributors of assets.

Finance lease receivables are included within loans and advances to customers.

The Group and the Bank's net investment in finance lease receivables was as follows:

The Group								
	2008				2007			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m
Not more than one year	3,929	(689)	3,240	149	3,657	(780)	2,877	213
Over one year but not more than five years	8,668	(1,673)	6,995	355	7,385	(1,613)	5,772	374
More than five years	3,419	(768)	2,651	25	3,476	(935)	2,541	14
<b>Total</b>	<b>16,016</b>	<b>(3,130)</b>	<b>12,886</b>	<b>529</b>	<b>14,518</b>	<b>(3,328)</b>	<b>11,190</b>	<b>601</b>

The Bank								
	2008				2007			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m
Not more than one year	8	(1)	7	–	7	(1)	6	–
Over one year but not more than five years	222	(7)	215	–	91	(2)	89	–
More than five years	126	(4)	122	–	67	(3)	64	–
<b>Total</b>	<b>356</b>	<b>(12)</b>	<b>344</b>	<b>–</b>	<b>165</b>	<b>(6)</b>	<b>159</b>	<b>–</b>

The allowance for uncollectible finance lease receivables included in the allowance for impairment for the Group amounted to £189m at 31st December 2008 (2007: £113m).



### 38 Leasing (continued)

#### Operating lease receivables

The Group and the Bank acts as lessor, whereby items of plant and equipment are purchased and then leased to third parties under arrangements qualifying as operating leases. The items purchased to satisfy these leases are treated as plant and equipment in the Group and the Bank's financial statements and are generally disposed of at the end of the lease term (see Note 23).

The future minimum lease payments expected to be received under non-cancellable operating leases at 31 st December 2008 were as follows:

	The Group		The Bank	
	2008	2007	2008	2007
	Plant and equipment £m	Plant and equipment £m	Plant and equipment £m	Plant and equipment £m
Not more than one year	80	29	–	–
Over one year but not more than two years	42	24	–	–
Over two years but not more than three years	36	22	–	–
Over three years but not more than four years	24	20	–	–
Over four years but not more than five years	13	11	–	–
Over five years	39	10	–	–
<b>Total</b>	<b>234</b>	<b>116</b>	<b>–</b>	<b>–</b>

#### (b) As Lessee

##### Finance lease commitments

The Group and the Bank lease items of property, plant and equipment on terms that meet the definition of finance leases. Finance lease commitments are included within other liabilities (see Note 25).

Obligations under finance leases were as follows:

	The Group		The Bank	
	2008	2007	2008	2007
	Total future minimum payments £m	Total future minimum payments £m	Total future minimum payments £m	Total future minimum payments £m
Not more than one year	35	12	2	7
Over one year but not more than two years	13	14	3	2
Over two years but not more than three years	14	13	1	3
Over three years but not more than four years	17	12	–	2
Over four years but not more than five years	14	15	–	–
Over five years	3	17	–	–
<b>Net obligations under finance leases</b>	<b>96</b>	<b>83</b>	<b>6</b>	<b>14</b>

The carrying amount of assets held under finance leases at the balance sheet date was:

	The Group		The Bank	
	2008	2007	2008	2007
	£m	£m	£m	£m
Cost	87	94	–	–
Accumulated depreciation	(67)	(24)	–	–
<b>Net book value</b>	<b>20</b>	<b>70</b>	<b>–</b>	<b>–</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 38 Leasing (continued)

#### Operating lease commitments

The Group and the Bank lease various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group and the Bank also lease equipment under non-cancellable lease arrangements.

Where the Group and the Bank are the lessees the future minimum lease payment under non-cancellable operating leases are as follows:

	The Group				The Bank			
	2008		2007		2008		2007	
	Property £m	Equipment £m	Property £m	Equipment £m	Property £m	Equipment £m	Property £m	Equipment £m
Not more than one year	275	5	191	6	45	2	44	5
Over one year but not more than two years	354	1	396	1	223	–	252	–
Over two years but not more three years	334	1	357	1	213	–	233	–
Over three years but not more four years	315	–	323	–	197	–	219	1
Over four years but not more than five years	465	5	287	–	185	–	195	–
Over five years	2,744	1	2,225	–	1,782	–	1,869	–
<b>Total</b>	<b>4,487</b>	<b>13</b>	<b>3,779</b>	<b>8</b>	<b>2,645</b>	<b>2</b>	<b>2,812</b>	<b>6</b>

The total of future minimum sublease payments to be received under non-cancellable subleases at the balance sheet date is £158m (2007: £167m) for the Group and £148m (2007: £167m) for the Bank.

### 39 Disposals

The Group made the following material disposals in 2008:

	% Disposal	Date
Barclays Life Assurance Limited	100	31/10/08
		2008 £m
Total disposal consideration		762
Costs associated with disposal		(33)
Net assets disposed		(403)
<b>Profit on disposal of subsidiaries</b>		<b>326</b>
Total disposal consideration		762
Costs associated with disposal		(7)
Repayment of loan on disposal		(386)
Cash and cash equivalents disposed of		(131)
<b>Disposal of subsidiaries, net of cash disposed</b>		<b>238</b>
Cash received in respect of disposal of ownership in BGI UK Holdings Limited through the exercise of options under the BGI EOP scheme		19
<b>Decrease in investment in subsidiaries</b>		<b>19</b>

## 40 Acquisitions

The Group made the following material acquisitions in 2008:

		Acquisition date	Gain on acquisition £m	Goodwill £m
Lehman Brothers North American businesses	(a)	22nd September 2008	2,262	–
Macquarie Bank Limited residential mortgage business	(b)	6th November 2008	52	–
Goldfish credit card UK business	(b)	31 st March 2008	92	–
Expobank (100% of ordinary shares)	(c)	1st July 2008	–	243
<b>Gains on acquisitions</b>			<b>2,406</b>	

### (a) Lehman Brothers North American businesses

On 22nd September 2008, the Group completed the acquisition of Lehman Brothers North American businesses.

The assets and liabilities of Lehman Brothers North American businesses after the acquisition, details of the purchase price and the gain on acquisition arising were as follows:

	Fair values £m
<b>Assets</b>	
Cash and balances at central banks	861
Trading portfolio assets	23,837
Loans and advances to customers	3,642
Available-for-sale financial investments	1,948
Other assets	41
Intangible assets <sup>a</sup>	888
Property, plant and equipment	886
Deferred tax asset	229
<b>Total assets</b>	<b>32,332</b>
<b>Liabilities</b>	
Customer accounts	2,459
Derivative financial instruments	599
Repurchase agreements and cash collateral on securities lent	24,409
Other liabilities	1,049
Deferred tax liabilities	517
<b>Total liabilities</b>	<b>29,033</b>
<b>Net assets acquired (excludes Obligation to be settled in shares)</b>	<b>3,299</b>
Obligation to be settled in shares <sup>b</sup>	(163)
<b>Acquisition cost</b>	
Cash paid	834
Attributable costs	40
<b>Total consideration</b>	<b>874</b>
<b>Gain on acquisition</b>	<b>2,262</b>

The acquired assets and liabilities summarised in the table above do not represent the entire balance sheet of Lehman Brothers North American businesses, or of discrete business lines within those operations. For this reason it is not practical to reliably determine the carrying amount of the assets and liabilities in the pre-acquisition books and records of Lehman Brothers.

### Notes

<sup>a</sup> Intangible assets included an amount of £636m relating to customer lists.

<sup>b</sup> Under the terms of the acquisition, the Group assumed an obligation to make payments to employees of the acquired business in respect of their pre-acquisition service provided to Lehman Brothers. This amount represents the equity-settled portion of that obligation and is recognised as a component of shareholders' equity.

# Notes to the accounts

## For the year ended 31st December 2008

### 40 Acquisitions (continued)

Certain assets were received subsequent to the acquisition date, since it was first necessary to agree their status as assets of the Group with the relevant regulators, custodians, trustees, exchanges and bankruptcy courts. Such assets were initially classified within loans and advances. Once they were received, the related receivable was derecognised and the resulting asset recognised within the appropriate balance sheet category. In the table such assets are classified accordingly.

The initial accounting for the acquisition has been determined only provisionally. Any revisions to fair values that result from the conclusion of the acquisition process with respect to assets not yet received by the Group will be recognised as an adjustment to the initial accounting. Any such revisions must be effected within 12 months of the acquisition date and would result in a restatement of the 2008 income statement and balance sheet.

The excess of the fair value of net assets acquired over consideration paid resulted in £2,262m of gain on acquisition.

It is impracticable to disclose the profit or loss of the acquired Lehman Brothers North American businesses since the acquisition date. The acquired business has been integrated into the corresponding existing business lines and there is no reliable basis for allocating post-acquisition results between the acquirer and the acquiree. Similarly, it is impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date had been 1st January 2008. Only parts of Lehman Brothers US and Canadian businesses, and specified assets and liabilities, were acquired. There is no reliable basis for identifying the proportion of the pre-acquisition results of Lehman Brothers that relates to the business acquired by the Group.

#### (b) Macquarie Bank Limited Italian residential mortgage businesses and Goldfish credits card UK businesses

On 6th November 2008, the Group purchased the Italian residential mortgage businesses of Macquarie Bank Limited.

On 31st March 2008, the Group completed the acquisition of Discover's UK credit card businesses, Goldfish.

The assets and liabilities of Macquarie Bank Limited Italian residential mortgage businesses and Goldfish credit card UK businesses before and after the acquisition, details of the purchase price and gains on acquisitions arising were as follows:

	Macquarie Bank Businesses			Goldfish credit card UK business		
	Carrying value pre-acquisition £m	Fair value adjustments £m	Fair values £m	Carrying value pre-acquisition £m	Fair value adjustments £m	Fair values £m
<b>Assets</b>						
Cash and balances at central banks	3	–	3	172	–	172
Loans and advances to banks	–	–	–	8	–	8
Loans and advances to customers	833	(20)	813	1,900	(34)	1,866
Other assets	–	–	–	39	(1)	38
Intangible assets	–	–	–	–	32	32
Property, plant and equipment	1	–	1	39	1	40
Deferred tax asset	–	–	–	–	12	12
<b>Total assets</b>	<b>837</b>	<b>(20)</b>	<b>817</b>	<b>2,158</b>	<b>10</b>	<b>2,168</b>
<b>Liabilities</b>						
Long- and short-term borrowings	–	–	–	1,974	–	1,974
Other liabilities	–	–	–	55	–	55
Deferred tax liabilities	–	–	–	–	9	9
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,029</b>	<b>9</b>	<b>2,038</b>
<b>Net assets acquired</b>	<b>837</b>	<b>(20)</b>	<b>817</b>	<b>129</b>	<b>1</b>	<b>130</b>
<b>Acquisition cost</b>						
Cash paid			765			35
Attributable costs			–			3
<b>Total consideration</b>			<b>765</b>			<b>38</b>
<b>Gains on acquisitions</b>			<b>52</b>			<b>92</b>

The contribution to the consolidated profit before tax of the acquired businesses in the table above for the period from the acquisition date to 31st December 2008 is £1m loss for Macquarie Bank Limited businesses and £40m profit for the Goldfish credit card UK businesses.

The excess remaining after the reassessment of the acquirees' identifiable assets, liabilities and contingent liabilities which has been recognised within the consolidated income statement as a gain on acquisition is £52m for Macquarie Bank Limited businesses and £92m for Goldfish credit card UK businesses.

#### 40 Acquisitions (continued)

##### (c) Expobank

On 1st July 2008, the Group acquired 100% of the ordinary shares of Expobank, a Russian bank.

The assets and liabilities of the Russian bank, Expobank before and after the acquisition, details of the purchase price and the goodwill arising were as follows:

	Carrying value pre- acquisition £m	Fair value adjustments £m	Fair values £m
<b>Assets</b>			
Cash and balances at central banks	73	–	73
Trading portfolio assets	52	–	52
Loans and advances to customers	446	5	451
Other assets	9	–	9
Intangible assets	–	45	45
Property, plant and equipment	28	–	28
<b>Total assets</b>	<b>608</b>	<b>50</b>	<b>658</b>
<b>Liabilities</b>			
Deposits from banks	71	–	71
Customer accounts	318	–	318
Debt securities in issue	103	–	103
Other liabilities	16	–	16
<b>Total liabilities</b>	<b>508</b>	<b>–</b>	<b>508</b>
<b>Net assets acquired</b>	<b>100</b>	<b>50</b>	<b>150</b>
<b>Goodwill</b>			<b>243</b>
<b>Total</b>			<b>393</b>
<b>Acquisition cost</b>			
Cash paid			386
Attributable costs			7
<b>Total consideration</b>			<b>393</b>

The excess of proceeds over the net assets acquired has generated goodwill of £243m and is attributable to the operational synergies and earnings potential expected to be realised over the longer term.

The results of the business's operations have been included from 1st July 2008 and contributed £1.3m loss to the consolidated profit before tax.

##### Cash outflows in respect of acquisitions

The aggregate net outflow of cash from the acquisition of the above Group businesses and entities was as follows:

	2008 £m
Cash consideration on acquisitions	2,070
Cash and cash equivalents acquired	(1,109)
<b>Cash outflow on acquisition</b>	<b>961</b>
Cash paid in respect of acquisition of shares in Barclays Global Investors UK Holdings Limited	157
<b>Increase in investment in subsidiaries</b>	<b>157</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 41 Related party transactions and Directors' remuneration

#### (a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes, as well as other persons.

#### (i) The Group

##### (a) Parent company

The parent company, which is also the ultimate parent company, is Barclays PLC, which holds 100% of the issued ordinary shares of Barclays Bank PLC.

##### (b) Subsidiaries

Transactions between Barclays Bank PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group financial statements. A list of the Group's principal subsidiaries is shown in Note 42.

##### (c) Associates, joint ventures and other entities

The Group provides banking services to associates, joint ventures, the Group pension funds (principally the UK Retirement Fund) and to entities under common directorships, providing loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. Group companies, principally within Barclays Global Investors, also provide investment management and custodian services to the Group pension schemes. The Group also provides banking services for unit trust and investment funds managed by Group companies and are not individually material. All of these transactions are conducted on the same terms as third-party transactions.

#### 41 Related party transactions and Directors' remuneration (continued)

Amounts included in the accounts, in aggregate by category of related party entity are as follows:

For the year ended and as at 31st December 2008					
	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds unit trusts and investment funds £m	Total £m
<b>Income statement</b>					
Interest received	–	105	3	–	108
Interest paid	–	(73)	–	–	(73)
Fees received for services rendered (including investment management and custody and commissions)	–	15	–	5	20
Fees paid for services provided	(44)	(146)	–	–	(190)
Principal transactions	8	59	60	(25)	102
<b>Assets</b>					
Loans and advances to banks and customers	110	954	34	–	1,098
Derivative transactions	–	9	311	15	335
Other assets	67	276	–	3	346
<b>Liabilities</b>					
Deposits from banks	–	592	–	–	592
Customer accounts	–	167	74	10	251
Derivative transactions	–	–	111	41	152
Other liabilities	3	18	–	28	49
For the year ended and as at 31st December 2007 <sup>a</sup>					
	Associates £m	Joint ventures £m	Entities under common directorships £m	Pension funds unit trusts and investment funds £m	Total £m
<b>Income statement</b>					
Interest received	5	88	1	–	94
Interest paid	(1)	(58)	(1)	–	(60)
Fees received for services rendered (including investment management and custody and commissions)	1	34	–	26	61
Fees paid for services provided	(52)	(78)	–	–	(130)
Principal transactions	(27)	45	(16)	–	2
<b>Assets</b>					
Loans and advances to banks and customers	142	1,285	40	–	1,467
Derivative transactions	–	4	36	–	40
Other assets	213	106	–	14	333
<b>Liabilities</b>					
Deposits from banks	11	–	–	–	11
Customer accounts	–	61	33	12	106
Derivative transactions	–	10	50	–	60
Other liabilities	4	125	–	–	129

No guarantees, pledges or commitments have been given or received in respect of these transactions in 2008 or 2007.

Derivatives transacted on behalf of the Pensions Funds Unit Trusts and Investment funds amounted to £31.8m (2007: £22m).

In 2008 Barclays paid £12m (2007: £18m) of its charitable donations through the Charities Aid Foundation, a registered charitable organisation, in which a Director of the Company is a Trustee.

#### Note

<sup>a</sup> The amounts reported in prior periods have been restated to reflect new related parties.



# Notes to the accounts

## For the year ended 31st December 2008

### 41 Related party transactions and Directors' remuneration (continued)

#### (ii) The Bank

##### Subsidiaries

Details of principal subsidiaries are shown in Note 42.

The Bank provides certain banking and financial services to subsidiaries.

The Bank also provides a number of normal current and interest bearing cash accounts to the Group pension funds (principally the UK Retirement Fund) in order to facilitate the day to day financial administration of the funds.

Group companies, principally within Barclays Global Investors, also provide investment management and custodian services. The Bank also provides normal banking services for unit trusts and investment funds managed by Group companies. These transactions are conducted on similar terms to third-party transactions and are not individually material.

In aggregate, amounts included in the accounts are as follows:

For the year ended and as at 31st December 2008						
	Subsidiaries £m	Associates £m	Joint ventures £m	Entities under common director- ships £m	Pension funds unit trusts and investment funds £m	Total £m
<b>Assets</b>						
Loans and advances to banks and customers	230,150	110	954	34	–	231,248
Derivative transactions	27,927	–	9	311	15	28,262
Other assets	51,330	67	276	–	3	51,676
<b>Liabilities</b>						
Deposits from banks	17,481	–	592	–	–	18,073
Customer accounts	200,761	–	167	74	10	201,012
Derivative transactions	31,099	–	–	111	41	31,251
Other liabilities	78,127	3	18	–	28	78,176
For the year ended and as at 31st December 2007 <sup>a</sup>						
	Subsidiaries £m	Associates £m	Joint ventures £m	Entities under common director- ships £m	Pension funds unit trusts and investment funds £m	Total £m
<b>Assets</b>						
Loans and advances to banks and customers	159,008	142	1,285	40	–	160,475
Derivative transactions	17,001	–	4	36	–	17,041
Other assets	76,164	213	106	–	14	76,497
<b>Liabilities</b>						
Deposits from banks	20,684	11	–	–	–	20,695
Customer accounts	135,408	–	61	33	12	135,514
Derivative transactions	12,914	–	10	50	–	12,974
Other liabilities	61,701	4	125	–	–	61,830

It is the normal practice of the Bank to provide its subsidiaries with support and assistance by way of guarantees, indemnities, letters of comfort and commitments, as may be appropriate, with a view to enabling them to meet their obligations and to maintain their good standing, including commitment of capital and facilities.

For dividends paid to Barclays PLC see Note 1.

#### Note

<sup>a</sup> The amounts reported in prior periods have been restated to reflect new related parties

#### 41 Related party transactions and Directors' remuneration (continued)

##### Key Management Personnel

The Group's key Management Personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank PLC (directly or indirectly) and comprise the Directors of Barclays Bank PLC and the Officers of the Group, certain direct reports of the Group Chief Executive and the heads of major business units.

In the ordinary course of business, the Bank makes loans to companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

There were no material related party transactions with companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

The Group provides banking services to Directors and other Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding at 31 st December 2008 were as follows:

	Directors, other Key Management Personnel and connected parties	
	2008 £m	2007 £m
<b>Loans outstanding at 1st January</b>	<b>7.6</b>	<b>8.0</b>
Loans issued during the year	<b>6.9</b>	2.8
Loan repayments during the year	<b>(5.4)</b>	(3.2)
<b>Loans outstanding at 31st December</b>	<b>9.1</b>	7.6
Interest income earned	<b>0.4</b>	0.4

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person) in 2008 or 2007.

	2008 £m	2007 £m
<b>Deposits outstanding at 1st January</b>	<b>8.9</b>	15.1
Deposits received during the year	<b>235.7</b>	114.6
Deposits repaid during the year	<b>(221.9)</b>	(115.2)
<b>Deposits outstanding at 31st December</b>	<b>22.7</b>	14.5
Interest expense on deposits	<b>0.5</b>	0.6

Of the loans outstanding above, £1.6m (2007: £nil) relates to Directors and other Key Management Personnel (and persons connected to them) that left during the year. Of the deposits outstanding above, £6.1m (2007: £2.8m) relates to Directors and other Key Management Personnel (and persons connected to them) that left the Group during the year.

All loans are provided on normal commercial terms to Directors and other Key Management Personnel (and persons connected to them) with the exception of £2,692 of loans which are provided on an interest free basis.

The loans of £2,692 provided on an interest free basis relate to the granting of loans to two non-Director members of Barclays key management to purchase commuter rail tickets. The commuter rail ticket loans are still provided to all Barclays staff members upon request on the same terms.

All loans to Directors and other key management personnel (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features.

# Notes to the accounts

## For the year ended 31st December 2008

### 41 Related party transactions and Directors' remuneration (continued)

Remuneration of Directors and other Key Management Personnel

	Directors and other Key Management Personnel	
	2008 £m	2007 £m
Salaries and other short-term benefits	10.8	23.9
Pension costs	0.9	1.1
Other long-term benefits	1.6	9.2
Termination benefits	—	—
Share-based payments	11.8	31.8
Employer social security charges on emoluments	2.7	7.8
	27.8	73.8

#### (b) Disclosure required by the Companies Act 1985

The following information is presented in accordance with the Companies Act 1985.

#### Directors' remuneration

	2008 £m	2007 £m
Aggregate emoluments	6.0	29.2
Gains made on the exercise of share options	—	0.3
Amounts paid under long-term incentive schemes	7.4	—
Actual pension contributions to money purchase scheme (2008: one Director, £11,745 and 2007: one Director, £10,233)	—	—
Notional pension contributions to money purchase scheme (2008: no Directors and 2007: no Directors)	—	—
	13.4	29.5

As at 31st December 2008, two Directors were accruing retirement benefits under a defined benefit scheme (2007: three Directors).

Of the figures in the table above, the amounts attributable to the highest paid Director are as follows:

	2008 £m	2007 £m
Aggregate emoluments	1.1	18.1
Accrued pension (2008: £572,000, 2007: £38,306)	0.6	—
Notional pension contributions to a money purchase scheme	—	—
Actual pension contributions to money purchase scheme (2008: £nil, 2007: £10,233)	—	—

One Director (Frits Seegers) agreed to waive his fees as non-executive Director of Absa Group Limited and Absa Bank Limited.

The fees for 2008 were ZAR 0.4m (£0.03m). The fees for 2007 were ZAR 0.5m (£0.03m). In both 2007 and 2008 the fees were paid to Barclays.

#### Contracts with Directors (and their connected persons) and Managers

The aggregate amounts outstanding at 31st December 2008 under transactions, arrangements and agreements made by banking companies within the Group for persons who are, or were during the year, Directors of Barclays Bank PLC and persons connected with them as defined in the Companies Act 2006, and for Managers, within the meaning of the Financial Services and Markets Act 2000, of Barclays Bank PLC were:

	Number of Directors or Managers	Number of connected persons	Amount £m
<b>Directors</b>			
Loans	1	1	6.1
Quasi-loans and credit card accounts	8	1	—
<b>Managers</b>			
Loans	3	n/a	14.0
Quasi-loans and credit card accounts	7	n/a	—

## 42 Principal subsidiaries

Country of registration or incorporation	Company name	Nature of business	Percentage of equity capital held %
Botswana	Barclays Bank of Botswana Limited	Banking	74.9
Egypt	Barclays Bank Egypt SAE	Banking	100
England	Barclays Mercantile Business Finance Limited	Loans and advances including leases to customers	100*
England	Barclays Global Investors UK Holdings Limited	Holding company	95.5
England	Barclays Global Investors Limited	Investment management	95.5*
England	Barclays Bank Trust Company Limited	Banking, securities industries and trust services	100*
England	Barclays Stockbrokers Limited	Stockbroking	100*
England	Barclays Capital Securities Limited	Securities dealing	100*
England	Barclays Global Investors Pensions Management Limited	Investment management	95.5*
England	FIRSTPLUS Financial Group PLC	Secured loan provider	100
England	Gerrard Investment Management Limited	Investment management	100*
Ghana	Barclays Bank of Ghana Limited	Banking	100
Ireland	Barclays Insurance (Dublin) Limited	Insurance provider	100*
Ireland	Barclays Assurance (Dublin) Limited	Insurance provider	100*
Isle of Man	Barclays Private Clients International Limited <sup>a</sup>	Banking	100*
Japan	Barclays Capital Japan Limited	Securities dealing	100*
Jersey	Barclays Private Bank & Trust Limited	Banking, trust company	100*
Kenya	Barclays Bank of Kenya Limited	Banking	68.5
Russia	Barclays Bank LLC	Banking	100*
South Africa	Absa Group Limited	Banking	58.6
Spain	Barclays Bank SA	Banking	99.7
Switzerland	Barclays Bank (Suisse) S.A.	Banking and trust services	100
USA	Barclays Capital Inc.	Securities dealing	100*
USA	Barclays Financial Corporation	Holding company for US credit card issuer	100*
USA	Barclays Global Investors, National Association	Investment management and securities industry	95.5*
USA	Barclays Group US Inc.	Holding company	100
Zimbabwe	Barclays Bank of Zimbabwe Limited	Banking	67.8*

In accordance with Section 231 (5) of the Companies Act 1985, the above information is provided solely in relation to principal subsidiaries.

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in these subsidiaries are held directly by Barclays Bank PLC except where marked \*.

Full information of all subsidiaries will be included in the Annual Return to be filed at Companies House.

### Note

<sup>a</sup> BBPLC is the beneficial owner of 38.1% of shares and Barclays Holdings (Isle of Man) Limited is the beneficial owner of 61.9% of shares.

# Notes to the accounts

## For the year ended 31st December 2008

### 43 Other entities

There are a number of entities that do not qualify as subsidiaries under UK Law but which are consolidated when the substance of the relationship between the Group and the entity (usually a Special Purpose Entity (SPE)) indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities gives rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

The consolidation of such entities may be appropriate in a number of situations, but primarily when:

- the operating and financial policies of the entity are closely defined from the outset (i.e. it operates on an 'autopilot' basis) with such policies being largely determined by the Group;
- the Group has rights to obtain the majority of the benefits of the entity and/or retains the majority of the residual or ownership risks related to the entity; or
- the activities of the entity are being conducted largely on behalf of the Group according to its specific business objectives.

Such entities are created for a variety of purposes including securitisation, structuring, asset realisation, intermediation and management.

Entities may have a different reporting date from that of the parent of 31st December. Dates may differ for a variety of reasons including local reporting regulations or tax laws. In accordance with our accounting policies, for the purpose of inclusion in the consolidated financial statements of Barclays PLC, entities with different reporting dates are made up until 31st December.

Entities may have restrictions placed on their ability to transfer funds, including payment of dividends and repayment of loans, to their parent entity. Reasons for the restrictions include:

- Central bank restrictions relating to local exchange control laws.
- Central bank capital adequacy requirements.
- Company law restrictions relating to treatment of the entities as going concerns.

Although the Group's interest in the equity voting rights in certain entities exceeds 50%, or it may have the power to appoint a majority of their Boards of Directors, they are excluded from consolidation because the Group either does not direct the financial and operating policies of these entities, or on the grounds that another entity has a superior economic interest in them. Consequently, these entities are not deemed to be controlled by Barclays.

The table below includes information in relation to such entities as required by the Companies Act 1985, Section 231 (5).

Country of registration or incorporation	Name	Percentage of ordinary share capital held %	Equity share-holders' funds £m	Retained loss for the year £m
UK	Oak Dedicated Limited	100	(4)	(1)
UK	Oak Dedicated Two Limited	100	(4)	–
UK	Oak Dedicated Three Limited	100	1	–
UK	Fitzroy Finance Limited	100	–	–
Cayman Islands	St James Fleet Investments Two Limited	100	2	–
Cayman Islands	BNY BT NewCo Limited	–	–	–

### 44 Events after the balance sheet date

On 2nd February 2009, Barclays completed the acquisition of PT Bank Akita, which was announced initially on 17th September 2008, following the approval of the Central Bank of Indonesia.

On 17th February 2009, Barclays announced that Barclays Capital will discontinue operations at its Equifirst subsidiary due to the market environment and strategic direction of the Group.

## 45 Share-based payments

The Group operates share schemes for employees throughout the world. The main current schemes are:

### Sharesave

Eligible employees in the UK, Spain and Ireland may participate in the Barclays Sharesave scheme. Under this scheme, employees may enter into contracts to save up to £250 per month (Ireland: €500, Spain: €135) and, at the expiry of a fixed term of three, five or seven years (Spain: three years), have the option to use these savings to acquire shares in the Company at a discount, calculated in accordance with the rules of the scheme. The discount is currently 20% of the market price at the date the options are granted. Participants in the scheme have six months from the date of vest in which the option can be exercised.

### Sharepurchase

Sharepurchase was introduced in January 2002. It is an HM Revenue & Customs approved all-employee share plan. The plan is open to all eligible UK employees, including executive Directors. Under the plan, participants are able to purchase up to £1,500 worth of Barclays PLC ordinary shares per tax year, which, if kept in trust for five years, can be withdrawn from the plan tax-free. Matching shares were introduced to the scheme during 2005 where the purchase of Barclays shares by the participant are matched equally by the Company up to a value of £600 per tax year. Any shares in the plan will earn dividends in the form of additional shares, which must normally be held by the trustee for three years before being eligible for release.

### Executive Share Award Scheme (ESAS)

For certain employees of the Group an element of their annual bonus is in the form of a deferred award of a provisional allocation of Barclays PLC shares under ESAS. The total value of the bonus made to the employee of which ESAS is an element is dependent upon the business unit, Group and individual employee performance. The ESAS element of the annual bonus must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and vest upon achieving continued service for three and five years from the date of award. ESAS awards are also made to eligible employees for recruitment purposes. All awards are subject to potential forfeit if the individual resigns and commences work with a competitor business.

### Performance Share Plan (PSP)

The Performance Share Plan (PSP) was approved by shareholders at the 2005 AGM to replace the ISOP scheme. Performance shares are 'free' Barclays shares for which no exercise price is payable and which qualify for dividends. Performance share awards are communicated to participants as an initial allocation. Barclays performance over a three-year period determines the final number of shares that may be released to participants.

### Incentive Share Plan (Incentive Shares)

The Incentive Share Plan (Incentive Shares) was introduced in March 2008. Incentive Shares are granted to participants in the form of a provisional allocation of Barclays shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares. Incentive Shares qualify for dividends.

Options granted under the following schemes are over subsidiaries of Barclays PLC:

### Absa Group Broad-based Black Economic Empowerment Transaction (BEE)

On 25th June 2004, Absa shareholders approved the allocation of 73,152,300, redeemable cumulative option-holding Absa preference shares to Batho Bonke Capital Limited. Each redeemable preference share carries the option to acquire one Absa ordinary share. The shares carry the same rights as ordinary shares including voting rights, and receive dividends which are payable semi-annually. Options vested immediately on date of issue and lapse after five years from the date of issue. Exercise may occur in lots of 100 only and within a price range varying from R48 to R69 (£3.16–£4.55) dependent on the 30-day volume weighted trading price on the JSE Limited. Options are redeemed by Absa on the final exercise date.

# Notes to the accounts

## For the year ended 31st December 2008

### 45 Share-based payments (continued)

#### Absa Group Limited Share Incentive Trust (AGLSIT)

In terms of the rules of Absa Group Limited Share Incentive Trust, the maximum number of shares which may be issued or transferred and/or in respect of which options may be granted to the participants shall be limited to shares representing 10% of the total number of issued shares from time to time. This is an equity-settled share-based payment arrangement and options are allocated to Absa employees according to the normal human resources talent management processes. The options issued up to August 2005 had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of ten years from the issuing date. Options issued since August 2005 have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be in the employ of Absa at the vesting date in order to be entitled to the options.

#### Absa Group Limited Share Ownership Administrative Trust (AGLSOT)

AGLSOT enabled all Absa employees to participate in a one-off offer to purchase 200 redeemable cumulative option-holding preference shares. Each redeemable preference share carries the option to acquire one Absa ordinary share. Options vest after three years and lapse after five years from the date of issue. Exercise may occur in lots of 100 only and within a price range varying from R48 to R69 (£3.16–£4.55) dependent on the 30-day volume weighted trading price on the JSE Limited. Options are redeemed by Absa on the final exercise date.

#### Absa Group Limited Executive Share Award Scheme (AGLESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched shares. If the bonus award remains in the ESAS for another two years, the participant receives another 10% matched shares. Dividend shares are paid to participants on the ordinary shares as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that receive a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

In addition, options remain outstanding under the following closed schemes:

#### Barclays Global Investors Equity Ownership Plan (BGI EOP)

The Equity Ownership Plan was extended to key employees of BGI. The exercise price of the options was determined by the Remuneration Committee of Barclays PLC based on the fair value of BGI as determined by an independent appraiser. The options were granted over shares in Barclays Global Investors UK Holdings Limited, a subsidiary of Barclays Bank PLC.

Options are not exercisable until vesting, with a third of the options held generally becoming exercisable at each anniversary of grant. The shareholder has the right to offer to sell the shares to Barclays Bank PLC 355 days following the exercise of the option. Barclays Bank PLC may accept the offer and purchase the shares at the most recently agreed valuation but is under no obligation to do so. Options lapse ten years after grant. The most recently agreed valuation was £87.22, at 31 st March 2008. No awards were made under the BGI EOP in 2008.

#### Incentive Share Option Plan (ISOP)

The ISOP was open by invitation to the employees and Directors of Barclays PLC. Options were granted at the market price at the date of grant calculated in accordance with the rules of the plan, and are normally exercisable between three and ten years from that date. The final number of shares over which the option may be exercised is determined by reference to set performance criteria. The number of shares under option represents the maximum possible number that may be exercised. No awards were made under ISOP during 2008.

#### Executive Share Option Scheme (ESOS)

The ESOS is a long-term incentive scheme and was available by invitation to certain senior executives of the Group with grants usually made annually. Options were issued with an exercise price equivalent to the market price at the date of the grant without any discount, calculated in accordance with the rules of the scheme, and are normally exercisable between three and ten years from that date. No further awards are made under ESOS.

#### Woolwich Executive Share Option Plan (Woolwich ESOP)

Options originally granted over Woolwich PLC shares at market value were exercised in 2001 or exchanged, in accordance with the proposals made under the offer to acquire the Woolwich, for options over Barclays PLC shares. Under the rules of ESOP, the performance conditions attached to the exercise of options were disapplied on acquisition of Woolwich PLC by Barclays. Options lapse ten years after grant.

At the balance sheet date the following cash-settled schemes operated within the Group:

#### Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP shares (and any associated notional dividend shares) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of ordinary shares as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to two non-market performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The award will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if Absa performance fails to meet the minimum criteria

#### Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% bonus phantom shares. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom shares. Dividend phantom shares are paid to participants on the ordinary phantom shares as if the shares were held from inception. The number of dividend phantom shares awarded is therefore calculated on the initial allocation and on the 20% and 10% bonus phantom shares, over the five-year period. Employees that receive performance bonuses in excess of a predetermined amount are compelled to place a set percentage of the bonus award in the Phantom ESAS. Employees also have the option of utilising more of their bonus award for voluntary ESAS phantom shares.



#### 45 Share-based payments (continued)

The weighted average fair value per option granted during the year is as follows:

	2008 £	2007 £
Sharesave	0.92	1.25
Sharepurchase	3.38	6.84
ISP	4.22	n/a
ESAS	4.09	6.96
PSP	4.89	8.03
BGI EOP	n/a	22.18
AGLSIT	n/a	3.18
AGLESAS	7.17	n/a

Fair values for Sharesave, PSP, BGI EOP and AGLSIT are calculated at the date of grant using either a Black-Scholes model or Monte Carlo simulation. No further grants have been made under the BGI EOP since 2008. Sharepurchase, ESAS, and AGLESAS are nil cost awards on which the performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value at that date.

As described above, the terms of the ESAS scheme require shares to be held for a set number of years from the date of vest. The calculation of the vest date fair value of such awards includes a reduction for this post-vesting restriction. This discount is determined by calculating how much a willing market participant would rationally pay to remove the restriction using a Black-Scholes option pricing model. The total discount required in 2008 is £10m (2007: £66m, 2006: £62m).

The significant weighted average assumptions used to estimate the fair value of the options granted in 2008 are as follows:

	2008		
	Sharesave	PSP	AGLESAS
Weighted average share price	3.11	5.45	7.17
Weighted average exercise price	2.51	2.07	–
Expected volatility	37%	37%	0%
Expected option life	4 years	3 years	5 years

The significant weighted average assumptions used to estimate the fair value of the options granted in 2007 are as follows:

	2007			
	Sharesave	PSP	BGI EOP	AGLSIT
Weighted average share price	5.82	7.07	95.33	9.18
Weighted average exercise price	4.81	–	95.33	7.62
Expected volatility	25%	25%	20%	30%
Expected option life	4 years	3 years	4 years	5 years

The significant weighted average assumptions used to estimate the fair value of the options granted in 2006 are as follows:

	2006			
	Sharesave	PSP	BGI EOP	AGLSIT
Weighted average share price	6.20	6.74	81.12	8.92
Weighted average exercise price	5.11	–	81.12	6.57
Expected volatility	25%	25%	24%	29%
Expected option life	4 years	3 years	4 years	5 years

Expected volatility and dividend yield on the date of grant have been used as inputs into the respective valuation models for Sharesave and PSP. Expected volatility has been determined using historical volatility of its peers over the expected life of the options for BGI EOP and AGLSIT applies a five-year rolling period.

The yield on UK government bonds with a commensurate life has been used to determine the risk-free discount rate of 4% for all schemes other than AGLSIT. Option life is estimated based upon historical data for the holding period of options between grant and exercise dates. The risk-free rate on the AGLSIT scheme represents the yield, recorded on date of option grant, on South African government zero coupon bond of a term commensurate to the expected life of the option.

# Notes to the accounts

## For the year ended 31st December 2008

### 45 Share-based payments (continued)

For the purposes of determining the expected life and number of options to vest, historical exercise patterns have been used, together with an assumption that a certain percentage of options will lapse due to leavers.

The assumed dividend yield for Barclays PLC is the average annual dividend yield on the date of grant of 5%. Dividend yield for AGLSIT of 3.5% was based on the average 12-month trailing yield over the year to grant date.

Analysis of the movement in the number and weighted average exercise price of options is set out below:

	Sharesave <sup>a</sup>				Sharepurchase <sup>a, c</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year</b>	<b>74,027</b>	78,929	<b>4.48</b>	4.22	<b>3,824</b>	2,472	–	–
Granted in the year	<b>56,024</b>	18,748	<b>2.51</b>	4.81	<b>3,834</b>	1,852	–	–
Adjustment in grants for open offer	<b>1,354</b>	–	<b>4.33</b>	–	–	–	–	–
Exercised/released in the year	<b>(3,357)</b>	(18,018)	<b>3.71</b>	3.70	<b>(64)</b>	(256)	–	–
Less: forfeited in the year	<b>(33,917)</b>	(5,632)	<b>4.35</b>	4.53	<b>(633)</b>	(244)	–	–
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>94,131</b>	74,027	<b>1.83</b>	4.48	<b>6,961</b>	3,824	–	–
<b>Of which exercisable:</b>	<b>4,025</b>	2,324	<b>3.71</b>	3.69	<b>737</b>	–	–	–

	ESAS <sup>a, c</sup>				PSP <sup>a, c</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year</b>	<b>182,200</b>	142,359	–	–	<b>63,163</b>	42,832	–	–
Granted in the year	<b>141,269</b>	76,064	–	–	<b>8,528</b>	20,331	–	–
Adjustment in grants for open offer	<b>6,884</b>	–	–	–	<b>1,370</b>	–	–	–
Exercised/released in the year	<b>(56,231)</b>	(31,036)	–	–	<b>(1,467)</b>	–	–	–
Less: forfeited in the year	<b>(6,185)</b>	(5,187)	–	–	<b>(20,865)</b>	–	–	–
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>267,937</b>	182,200	–	–	<b>50,729</b>	63,163	–	–
<b>Of which exercisable:</b>	<b>15,131</b>	16,587	–	–	–	–	–	–

	ISP <sup>a, c</sup>				Absa BEE <sup>b</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year/acquisition date</b>	–	–	–	–	<b>73,152</b>	73,152	<b>3.40-3.89</b>	3.50-5.03
Granted in the year	<b>6,923</b>	–	–	–	–	–	–	–
Adjustment in grants for open offer	<b>177</b>	–	–	–	–	–	–	–
Exercised/released in the year	–	–	–	–	–	–	–	–
Less: forfeited in the year	–	–	–	–	–	–	–	–
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>7,100</b>	–	–	–	<b>73,152</b>	73,152	<b>3.16-4.55</b>	3.40-3.89
<b>Of which exercisable:</b>	–	–	–	–	<b>73,152</b>	73,152	<b>3.16-4.55</b>	3.40-3.89

	AGLSIT <sup>b</sup>				AGLSOT <sup>b</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year/acquisition date</b>	<b>13,618</b>	18,778	<b>4.81</b>	3.87	<b>946</b>	4,847	<b>3.40-3.89</b>	3.50-5.03
Granted in the year	–	260	–	7.62	–	–	–	–
Exercised/released in the year	<b>(3,252)</b>	(4,668)	<b>3.37</b>	3.60	<b>(368)</b>	(3,592)	–	–
Less: forfeited in the year	<b>(399)</b>	(752)	<b>4.96</b>	5.22	<b>(19)</b>	(309)	<b>3.16-4.55</b>	3.40-3.89
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>9,967</b>	13,618	<b>4.91</b>	4.81	<b>559</b>	946	<b>3.16-4.55</b>	3.40-3.89
<b>Of which exercisable:</b>	<b>5,944</b>	5,603	<b>3.86</b>	3.25	<b>559</b>	946	<b>3.16-4.55</b>	3.40-3.89

#### Notes

<sup>a</sup> Options/award granted over Barclays PLC shares.

<sup>b</sup> Options/award granted over Absa Group Limited shares.

<sup>c</sup> Nil cost award.

#### 45 Share-based payments (continued)

	AGLESAS <sup>c,d</sup>				BGI EOP <sup>b</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year/acquisition date</b>	<b>37</b>	37	–	–	<b>7,502</b>	6,929	<b>75.66</b>	57.79
Granted in the year	<b>1,019</b>	–	–	–	–	2,599	–	95.33
Exercised/released in the year	–	–	–	–	<b>(550)</b>	(1,632)	<b>34.35</b>	34.99
Less: forfeited in the year	<b>(41)</b>	–	–	–	<b>(368)</b>	(394)	<b>86.57</b>	59.63
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>1,015</b>	37	–	–	<b>6,584</b>	7,502	<b>78.50</b>	75.66
<b>Of which exercisable:</b>	–	–	–	–	<b>3,631</b>	1,556	<b>69.29</b>	47.00

	ISOP <sup>a</sup>				ESOS <sup>a</sup>			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Outstanding at beginning of year</b>	<b>20,549</b>	77,507	<b>4.56</b>	4.59	<b>1,423</b>	1,748	<b>4.13</b>	4.14
Granted in the year	–	–	–	–	–	–	–	–
Adjustment in grants for open offer	<b>537</b>	–	<b>4.44</b>	–	<b>12</b>	–	<b>4.33</b>	–
Exercised/released in the year	<b>(539)</b>	(9,718)	<b>4.06</b>	4.35	<b>(70)</b>	(325)	<b>3.97</b>	4.20
Less: forfeited in the year	–	(47,240)	–	4.66	<b>(892)</b>	–	<b>3.97</b>	–
Less: expired in the year	–	–	–	–	–	–	–	–
Outstanding at end of year	<b>20,547</b>	20,549	<b>4.44</b>	4.56	<b>473</b>	1,423	<b>4.33</b>	4.13
<b>Of which exercisable:</b>	<b>20,547</b>	20,238	<b>4.44</b>	4.54	<b>473</b>	1,423	<b>4.33</b>	4.13

	Woolwich ESOP <sup>a</sup>			
	Number (000s)		Weighted average ex. price (£)	
	2008	2007	2008	2007
<b>Outstanding at beginning of year</b>	<b>540</b>	700	<b>3.81</b>	3.81
Granted in the year	–	–	–	–
Adjustment in grants for open offer	<b>12</b>	–	<b>3.70</b>	–
Exercised/released in the year	<b>(104)</b>	(160)	<b>3.10</b>	3.84
Less: forfeited in the year	<b>(6)</b>	–	<b>3.65</b>	–
Less: expired in the year	–	–	–	–
Outstanding at end of year	<b>442</b>	540	<b>3.70</b>	3.81
<b>Of which exercisable:</b>	<b>442</b>	540	<b>3.70</b>	3.81

The table below shows the weighted average share price at the date of exercise/release of shares:

	2008 £	2007 £
Sharesave <sup>a</sup>	<b>4.70</b>	5.72
Sharepurchase <sup>a,d</sup>	<b>1.59</b>	6.74
ESAS <sup>a,d</sup>	<b>4.07</b>	6.71
PSP	<b>2.07</b>	n/a
BGI EOP <sup>b</sup>	<b>87.22</b>	97.06
AGLSIT <sup>c</sup>	<b>6.78</b>	9.52
AGLSOT <sup>c</sup>	<b>6.79</b>	n/a
ISOP <sup>a</sup>	<b>4.59</b>	7.31
ESOS <sup>a</sup>	<b>4.74</b>	7.26
Woolwich ESOP <sup>a</sup>	<b>4.72</b>	7.24

#### Notes

- <sup>a</sup> Options/award granted over Barclays PLC shares.
- <sup>b</sup> Options/award granted over Barclays Global Investors UK Holdings Limited shares.
- <sup>c</sup> Options/award granted over Absa Group Limited shares.
- <sup>d</sup> Nil cost award.

# Notes to the accounts

## For the year ended 31st December 2008

### 45 Share-based payments (continued)

The exercise price range, the weighted average contractual remaining life and number of options outstanding (including those exercisable) at the balance sheet date are as follows:

Exercise Price Range	2008		2007	
	Weighted average remaining contractual life in years	Number of options outstanding	Weighted average remaining contractual life in years	Number of options outstanding
<b>Sharesave<sup>a</sup></b>				
£1.44-£2.49	3	2,121,926	—	—
£2.50-£3.49	4	54,437,940	—	328,822
£3.50-£4.49	1	19,986,642	2	40,371,606
£4.50-£5.49	3	17,584,689	4	33,327,119
<b>Sharepurchase<sup>a, d</sup></b>	2	6,960,593	2	3,824,021
<b>ESAS<sup>a, d</sup></b>	3	267,936,513	3	182,200,170
<b>ISP<sup>a, d</sup></b>	2	7,099,655	—	—
<b>PSP<sup>a, d</sup></b>	1	50,729,245	1	63,162,894
<b>BGI EOP<sup>b</sup></b>				
£6.11-£13.99	4	101,000	4	239,717
£14.00-£20.11	5	236,503	6	285,671
£20.12-£56.94	6	759,213	7	1,059,430
£56.95-£95.33	8	5,487,520	9	5,916,863
<b>Absa BEE<sup>c</sup></b>				
£3.16-£4.55	1	73,152,300	2	73,152,300
<b>AGLSIT<sup>c</sup></b>				
£1.66-£7.50	6	9,967,000	7	13,618,000
<b>AGLSOT<sup>c</sup></b>				
£3.16-£4.55	1	559,000	2	946,000
<b>AGLESAS<sup>c, d</sup></b>	3	1,015,000	3	37,059
<b>ISOP<sup>a</sup></b>				
£2.50-£3.49	4	3,862,322	5	3,965,300
£3.50-£4.49	2	1,558,449	3	1,409,828
£4.50-£5.49	4	14,899,933	5	14,896,227
£5.50-£6.49	7	225,894	7	277,096
<b>ESOS<sup>a</sup></b>				
£2.50-£3.49	—	—	—	4,000
£3.50-£4.49	1	472,561	1	1,418,818
<b>Woolwich ESOP<sup>a</sup></b>				
£2.50-£3.49	1	89,644	2	110,616
£3.50-£4.49	1	352,961	2	429,584

There were no modifications to the share-based payment arrangements in the years 2008, 2007 and 2006. As at 31st December 2008, the total liability arising from cash-settled share-based payment transactions was £23m (2007: £16m).

At 31st December 2008, 6.6 million (2007: 7.5 million) options were outstanding under the terms of the BGI EOP (which would represent a 7.3% interest if exercised). Employees in BGI own 4.5% of the shares in Barclays Global Investors UK Holdings Limited (2007: 5.9%). If all the current options were exercised, £516.9m (2007: £567.6m) would be subscribed. Since the scheme was introduced, options over 21.5 million (2007: 20.9 million) shares have been exercised, of which 3.8 million are still held by employees and represent a minority interest in the Group.

At 31st December 2008, there were 73.2 million, 10 million and 0.6 million options granted over Absa Group Limited shares under the Absa Group Limited Black Economic Empowerment Transaction, Absa Group Limited Share Incentive Trust and Absa Group Limited Share Ownership Administrative Trust respectively. In aggregate, these options would represent a 11.0% interest in Absa Group Limited if exercised.

#### Impact of Capital Raising

During 2008, the number of shares in each award or option has been increased by 2.68% and any corresponding option exercise price has been decreased by 2.68% to reflect the impact of the capital raising in July. No adjustments were made for any other capital raising during 2008.

#### Notes

<sup>a</sup> Options/award granted over Barclays PLC shares.

<sup>b</sup> Options/award granted over Barclays Global Investors UK Holdings Limited shares.

<sup>c</sup> Options/award granted over Absa Group Limited shares.

<sup>d</sup> Nil cost award.

## 46 Financial risks

### Financial risk management

There are no differences in the manner in which financial risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group. Therefore, the explanations of the management, the control responsibilities and the measurement described in this note and Notes 47, 48 and 49 are those for the Barclays PLC Group, which includes the Barclays Bank PLC Group. The amounts included in these notes are those for Barclays Bank PLC.

Barclays Bank PLC is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Financial instruments are fundamental to the Group's business and managing financial risks, especially credit risk, is a fundamental part of its business activity.

Barclays risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits, and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date data. Risk management policies, models and systems are regularly reviewed to reflect changes to markets, products and best market practice.

### Risk responsibilities

The Board approves risk appetite and the Board Risk Committee monitors the Group's risk profile against this appetite:

- The Group Risk Director, under delegated authority from the Group Chief Executive and Group Finance Director, has responsibility for ensuring effective risk management and control;
- Business Heads are responsible for the identification and management of risk in their 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 for implementing appropriate controls. These risk management teams also assist Group Risk in the formulation of Group Risk policy and the implementation of it across the businesses;
- Within Group risk, Risk-Type Heads and their teams are responsible for establishing a risk control framework and risk oversight; and
- Internal Audit is responsible for the independent review of risk management and the control environment.

Oversight of risk management is exercised by the Risk Oversight Committee which is chaired by the Group Risk Director under authority delegated by the Group Finance Director. The Risk Oversight Committee oversees management of the Group's risk profile, exercised through the setting, review and challenge of the size and constitution of the profile when viewed against the Group risk appetite.

The Executive Committee monitors and manages risk-adjusted performance of businesses and receives a regular update on forward risk trends and the Group Risk Profile Report.

The Board Risk Committee (BRC) reviews the Group risk profile, approves the Group Control Framework and approves minimum control requirements for principal risks.

The Board Audit Committee (BAC) considers the adequacy and effectiveness of the Group Control Framework and receives quarterly reports on control issues of significance and half-yearly reports on impairment allowances and regulatory reports.

Both BRC and BAC 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. The Board approves the overall Group risk appetite.

The Risk Oversight Committee is chaired by the Group Risk Director and oversees the management of the Group's risk profile and all of its significant risks. Oversight is exercised through the setting, review and challenge of the size and constitution of the profile when viewed against the Group's risk appetite. It has delegated and apportioned responsibility for credit risk management to the Retail and Wholesale Credit Risk Management Committees.

The main financial risks affecting the Group are discussed in Notes 47 to 49.

# Notes to the accounts

## For the year ended 31st December 2008

### 47 Market Risk

#### 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. Market risk mainly arises from trading activities. Barclays is also exposed to market risk through interest rate risk on its non-trading activities and through the pension fund.

#### 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 Group Risk Director, sets a limit framework within the context of the approved market risk appetite. A daily market risk report summarises Barclays market risk exposures against agreed limits. This daily report is sent to the Group Risk Director, the Market Risk Director, the Group Finance Director and the appropriate Business Risk Directors.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in Barclays Market Risk Control Framework. Oversight and support is provided to the business by the Market Risk Director, assisted by the central market risk team. The Market Risk Committee reviews, approves, and makes recommendations concerning the market risk profile across Barclays including risk appetite, limits and utilisation. The Committee meets monthly and is chaired by the Market Risk Director. Attendees include the Risk Director, respective business risk managers and senior managers from the central market risk team.

#### Traded market risk

Barclays policy is to concentrate trading activities in Barclays Capital. This includes transactions where Barclays Capital acts as principal with clients or with the market. For maximum efficiency, client and market activities are managed together.

#### Risk measurement and control

The measurement techniques used to measure and control traded market risk include Daily Value at Risk (DVaR), Expected Shortfall (ES), stress testing and scenario testing.

DVaR is an estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for one business day. Barclays Capital uses the historical simulation method with a two year unweighted historical period.

In 2008, the confidence level was changed to 95% from 98% as an increasing incidence of significant market movements made the existing measure more volatile and less effective for risk management purposes. Switching to 95% made DVaR more stable and consequently improved management, transparency and control of the market risk profile.

The historical simulation calculation can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum hypothetical profit or losses, for day 1 giving one total profit or loss. This is repeated for all other days in the two year history.
- DVaR is the 95th percentile selected from the two years of daily hypothetical total profit or loss.

The DVaR model has been approved by the FSA to calculate regulatory capital for the trading book. The approval covers general market risk in interest rate, foreign exchange, commodities and equity products, and issuer specific risk for the majority of single name and portfolio traded credit products.

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 a loss, (as defined by the FSA in BIPRU 7.10), exceeds the corresponding DVaR estimate, measured at the 99% confidence level.

The FSA categorises a DVaR model as green (being best), amber or red. A green model is consistent with a good working DVaR model and is achieved for models that have four or less back testing exceptions in a 12- month period. For Barclays Capital's trading book, green model status was maintained for 2008 and 2007.

To further improve the control framework, formal daily monitoring of ES was started. This metric is the average of all the hypothetical losses beyond DVaR. Other controls include stress testing and scenario testing.

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. It helps to identify risk concentrations across business lines and assist senior management in capital planning decisions. A variety of different types of stress tests are performed in order to fulfil the objectives of stress testing. The global asset class stress tests have been designed to cover major asset classes including interest rate, credit spread, commodity, equity, foreign exchange rates and emerging markets.

Stress results are produced at least fortnightly. If a potential stress loss exceeds the corresponding trigger limit, the positions captured by the stress test are reviewed and discussed by Barclays Capital market risk management and the respective Barclays Capital business heads. The minutes of the discussion, including the merits of the position and the appropriate course of action, are then sent to the Market Risk Director for review.

Scenario tests are hypothetical events which could lead to extreme yet plausible stress type moves under which profitability is seriously challenged. The scenarios are devised by senior risk managers and economists and are reviewed quarterly. Examples include 'Global Pandemic', 'Problems with GBP sovereign issuances' and 'Liquidity crisis'. The scenarios are calculated at least fortnightly and the results are included in the Traded Positions Risk Review meeting information pack.

#### 47 Market risk (continued)

##### Analysis of traded market risk exposures

Barclays Capital market risk exposure, as measured by average total DVaR (95%), increased by 64% to £53.4m in 2008. This was mainly due to higher market volatility within the credit spread and interest rate DVaRs.

Total DVaR increased significantly in the fourth quarter, mainly due to extreme market volatility following the failure of several financial intuitions and a material deterioration in the global economic outlook. Total DVaR (95%) at 31 st December 2008 was £86.6m (31 st December 2007: £39.6m), which was within limit.

On a 98% basis, average total DVaR increased 82% to £76.5m.

The daily average, maximum and minimum values of DVaR, 95% and 98%, were calculated as below.

The Group	12 months to 31st December 2008			12 months to 31st December 2007		
	Average £m	High £m	Low £m	Average £m	High £m	Low £m
Interest rate risk	28.9	47.8	15.1	15.3	26.5	10.0
Credit spread risk	31.1	71.7	15.4	17.3	28.0	10.8
Commodity risk	18.1	25.4	12.5	15.3	19.0	10.7
Equity risk	9.1	21.0	4.8	8.0	12.1	4.5
Foreign exchange risk	5.9	13.0	2.1	3.8	7.2	2.1
Diversification effect <sup>a</sup>	(39.7)	n/a	n/a	(27.2)	n/a	n/a
<b>Total DVaR</b>	<b>53.4</b>	<b>95.2</b>	<b>35.5</b>	<b>32.5</b>	<b>40.9</b>	<b>25.2</b>

The Group	12 months to 31st December 2008			12 months to 31st December 2007		
	Average £m	High £m	Low £m	Average £m	High £m	Low £m
Interest rate risk	45.0	80.9	21.0	20.0	33.3	12.6
Credit spread risk	54.0	143.4	30.1	24.9	43.3	14.6
Commodity risk	23.9	39.6	16.5	20.2	27.2	14.8
Equity risk	12.8	28.9	6.7	11.2	17.6	7.3
Foreign exchange risk	8.1	21.0	2.9	4.9	9.6	2.9
Diversification effect <sup>a</sup>	(67.3)	n/a	n/a	(39.2)	n/a	n/a
<b>Total DVaR</b>	<b>76.5</b>	<b>158.8</b>	<b>47.5</b>	<b>42.0</b>	<b>59.3</b>	<b>33.1</b>

The average ES in 2008 was £70.0m, a rise of £34.7m compared with 2007.

##### The Bank

Barclays Capital's market risk exposure, as measured by average total DVaR of 95%, increased by 60% to £51.6m. Total DVaR at 31 st December 2008 was £84.8m. The high for the year was £93.4m and the low for the year was £33.7m.

Barclays Capital's market risk exposure, as measured by average total DVaR of 98%, increased 86% to £74.5m. Total DVaR at 31 st December 2008 was £156.8m. The high for the year was £156.8m and the low for the year was £45.5m.

##### Non-trading interest rate risk

Non-traded interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services.

Barclays objective is to minimise non-traded risk. This is achieved by transferring risk from the business to a local treasury or Group Treasury, who in turn hedge the net exposure with the external market. Limits exist to ensure no material risk is retained within any business or product area. The majority of exposures are within Global Retail and Commercial Banking.

##### Risk measurement and control

The techniques used to measure and control non-traded interest rate risk include Annual Earnings at Risk, DVaR and Stress Testing. Book limits such as foreign exchange and interest position limits are also in place.

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income (NII) over the next 12 months. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a 100 basis points increase or decrease in interest rates.

DVaR is also used as a complementary tool to AEaR.

Stress testing is also carried out by the business centres and is reviewed by senior management and business-level asset and liability committees. The stress testing is tailored to the business and typically incorporates scenario analysis and historical stress movements applied to respective portfolios.

##### Note

<sup>a</sup> The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and it is therefore omitted from the above table.



# Notes to the accounts

## For the year ended 31st December 2008

### 47 Market risk (continued)

#### Analysis of Net Interest Income sensitivity

The tables below show the pre-tax net interest income sensitivity for the non-trading financial assets and financial liabilities held at 31st December 2008. The sensitivity has been measured using AEaR methodology as described above. The benchmark interest rate for each currency is set as at 31st December 2008. The figures include the effect of hedging instruments but exclude exposures held or issued by Barclays Capital as these are measured and managed using DVaR.

#### Net interest income sensitivity(AEaR) by currency

	+100 basis points 2008 £m	–100 basis points 2008 £m	+100 basis points 2007 £m	–100 basis points 2007 £m
<b>The Group</b>				
GBP	3	(273)	36	(37)
USD	(25)	7	(3)	1
EUR	(34)	30	(23)	23
ZAR	13	(13)	19	(19)
Others	–	(8)	4	(5)
<b>Total</b>	<b>(43)</b>	<b>(257)</b>	<b>33</b>	<b>(37)</b>
<b>As percentage of net interest income</b>	<b>(0.38%)</b>	<b>(2.25%)</b>	0.34%	(0.39%)

Non-traded interest rate risk, as measured by AEaR, was £257m in 2008, an increase of £220m compared to 2007. This estimate takes into account the rate in place as at 31st December 2008. The increase mainly reflects the reduced spread generated on retail and commercial banking liabilities in the lower interest rate environment. If the interest rate hedges had not been in place then the AEaR risk for 2008 would have been £670m.

DVaR is also used to control market risk in GRCB – Western Europe, and Group Treasury. The indicative average DVaRs for 2008, using a simplified DVaR approach, were £1.3m and £0.6m respectively.

	+100 basis points 2008 £m	–100 basis points 2008 £m	+100 basis points 2007 £m	–100 basis points 2007 £m
<b>The Bank</b>				
GBP	1	(108)	14	(14)
USD	(10)	3	(1)	–
EUR	(13)	12	(9)	9
ZAR	5	(5)	7	(7)
Others	–	(3)	2	(2)
<b>Total</b>	<b>(17)</b>	<b>(101)</b>	<b>13</b>	<b>(14)</b>
<b>As percentage of net interest income</b>	<b>(0.25%)</b>	<b>(1.49%)</b>	0.36%	(0.38%)

Note: This table excludes exposures held or issued by Barclays Capital as these are measured and managed using DVaR.

#### Note

a The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and it is therefore omitted from the above table.

## 47 Market risk (continued)

### Analysis of Equity sensitivity

	+100 basis points 2008 £m	-100 basis points 2008 £m	+100 basis points 2007 £m	-100 basis points 2007 £m
<b>The Group</b>				
Net interest income	(43)	(257)	33	(37)
Taxation effects on the above	6	33	(9)	10
<b>Effect on profit for the year</b>	<b>(37)</b>	<b>(224)</b>	<b>24</b>	<b>(27)</b>
<b>As percentage of net profit after tax</b>	<b>(0.71%)</b>	<b>(4.27%)</b>	<b>0.47%</b>	<b>(0.53%)</b>
Effect on profit for the year (per above)	(37)	(224)	24	(27)
Available for sale reserve	(806)	806	(390)	390
Cash flow hedging reserve	(473)	474	(476)	476
Taxation effects on the above	166	(166)	242	(242)
<b>Effect on equity</b>	<b>(1,150)</b>	<b>890</b>	<b>(600)</b>	<b>597</b>
<b>As a percentage of equity</b>	<b>(2.64%)</b>	<b>2.04%</b>	<b>(1.88%)</b>	<b>1.87%</b>
	+100 basis points 2008 £m	-100 basis points 2008 £m	+100 basis points 2007 £m	-100 basis points 2007 £m
<b>The Bank</b>				
Net interest income	(17)	(101)	13	(14)
Taxation effects on the above	1	3	(1)	1
<b>Effect on profit for the year</b>	<b>(16)</b>	<b>(98)</b>	<b>12</b>	<b>(13)</b>
<b>As percentage of net profit after tax</b>	<b>(0.26%)</b>	<b>(1.59%)</b>	<b>0.25%</b>	<b>(0.27%)</b>
Effect on profit for year (per above)	(16)	(98)	12	(13)
Available for sale reserve	(621)	621	(339)	339
Cashflow hedging reserve	(357)	358	(415)	415
Taxation effects on the above	29	(29)	45	(45)
<b>Effect on equity</b>	<b>(965)</b>	<b>852</b>	<b>(697)</b>	<b>696</b>
<b>As a percentage of equity</b>	<b>(2.85%)</b>	<b>2.51%</b>	<b>(3.04%)</b>	<b>3.04%</b>

### Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk.

#### (a) Transactional foreign currency exposure

Transactional foreign exchange exposures represent exposure on banking assets and liabilities, denominated in currencies other than the functional currency of the transacting entity.

The Group's risk management policies prevent the holding of significant open positions in foreign currencies outside the trading portfolio managed by Barclays Capital which is monitored through DVaR.

There were no material net transactional foreign currency exposures outside the trading portfolio at either 31 st December 2008 or 2007. Due to the low level of non-trading exposures no reasonably possible change in foreign exchange rates would have a material effect on either the Group's profit or movements in equity for the year ended 31 st December 2008 or 2007.

#### (b) Translational foreign exchange exposure

The Group's translational foreign currency exposure arises from both its capital resources (including investments in subsidiaries and branches, intangible assets, minority interests and debt capital) and risk weighted assets denominated in non-Sterling currencies. Changes in foreign exchange rates result in changes in the Sterling equivalent value of non-Sterling denominated capital resources and risk weighted assets. As a result, the Group's regulatory capital ratios are sensitive to foreign exchange rate movements.

The Group's hedge strategy is to minimise the volatility of all capital ratios whilst taking into account the impact on hedging of non-Sterling net investments, the cost of hedging, the availability of a suitable foreign exchange market and prevailing foreign exchange rates.

To minimise volatility in the equity ratio, the Group aims over time to maintain the ratio of foreign currency equity capital resources to RWAs the same as the Group's equity ratio. To create equity capital resources denominated in non-Sterling currencies, the Group leaves some investments in core non-Sterling subsidiaries and branches un-hedged. The resultant change in the Sterling value of the investments is captured in the currency translation reserve, resulting in an equity capital movement.

# Notes to the accounts

## For the year ended 31st December 2008

### 47 Market risk (continued)

Depending on the value of non-Sterling net investments, it may not always be possible to maintain the ratio, leaving some capital ratio sensitivity to foreign exchange movements.

The proceeds from equity accounted foreign currency preference shares are also used in the equity ratio hedge. If a preference share is redeemed, the cumulative movement in the currency translation reserve will be offset by an equal and opposite movement in other reserves reflecting the revaluation of the preference shares to prevailing foreign exchange rates.

The exposure of Tier 1 and Total capital ratios is managed by issuing, where possible, debt capital in non-Sterling currencies such that the ratio of Tier 1 and total capital resources to risk weighted assets is the same as the Group's Tier 1 and Total capital ratios. This is primarily achieved by the issuance of debt capital in major currencies, but can also be achieved by subsidiaries issuing capital in local currencies.

The carrying value of the Group's foreign currency net investments in subsidiaries and branches and the foreign currency borrowings and derivatives used to hedge them as at 31st December 2008 were as follows:

The Group	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Structural currency exposures pre economic hedges £m	Economic hedges £m	Remaining structural currency exposures £m
<b>At 31st December 2008</b>						
<b>Functional currency of the operation involved</b>						
United States Dollar	14,577	6,019	–	8,558	6,720	1,838
Euro	6,336	2,922	–	3,414	3,125	289
Rand	3,725	–	1,306	2,419	164	2,255
Japanese Yen	5,009	801	4,212	(4)	–	(4)
Swiss Franc	3,042	2,936	101	5	–	5
Other	2,940	–	880	2,060	–	2,060
<b>Total</b>	<b>35,629</b>	<b>12,678</b>	<b>6,499</b>	<b>16,452</b>	<b>10,009</b>	<b>6,443</b>
<b>The Group</b>						
<b>At 31st December 2007</b>						
<b>Functional currency of the operation involved</b>						
United States Dollar	3,273	1,000	–	2,273	3,575	(1,302)
Euro	3,690	1,506	–	2,184	2,387	(203)
Rand	3,205	–	2,599	606	165	441
Japanese Yen	2,986	180	2,773	33	–	33
Swiss Franc	2,140	–	2,131	9	–	9
Other	1,847	53	465	1,329	–	1,329
<b>Total</b>	<b>17,141</b>	<b>2,739</b>	<b>7,968</b>	<b>6,434</b>	<b>6,127</b>	<b>307</b>

The economic hedges represent the US Dollar and Euro Preference Shares and Reserve Capital Instruments in issue that are treated as equity under IFRS, and do not qualify as hedges for accounting purposes.

The impact of a change in the exchange rate between Sterling and any of the major currencies would be:

- A higher or lower Sterling equivalent value of non-Sterling denominated capital resources and risk weighted assets. This includes a higher or lower currency translation reserve within equity, representing the retranslation of non-Sterling subsidiaries, branches and associated undertakings net of the impact of foreign exchange rate changes on derivatives and borrowings designated as hedges of net investments.
- A higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement.
- A higher or lower value of available for sale investments denominated in foreign currencies, impacting the available for sale reserve.

#### 48 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 arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

Barclays is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including, non-equity trading portfolio assets, derivatives as well as settlement balances with market counterparties and reverse repurchase loans.

Losses arising from exposures held for trading (derivatives, debt securities) are accounted for as trading losses, rather than impairment charges, even though the fall in value causing the loss may be attributable to credit deterioration.

##### **Maximum exposure to credit risk before collateral held or other credit enhancements**

The following table presents the maximum exposure at 31 st December 2008 and 2007 to credit risk of balance sheet and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements and after allowance for impairment and netting where appropriate.

For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that Barclays would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

This analysis and all subsequent analyses of credit risk include only financial assets subject to credit risk. They exclude other financial assets, mainly equity securities held in trading portfolio or available for sale as well as non-financial assets. The nominal value of off-balance sheet credit related instruments are also shown, where appropriate.

Financial assets designated at fair value held in respect of linked liabilities to customers under investment contracts have not been included as the Group is not exposed to credit risk on these assets. Credit losses in these portfolios, if any, would lead to a reduction in the linked liabilities and result in no direct loss to the Group.

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

Whilst the Group's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet items, the amount guaranteed, committed, accepted or endorsed, in most cases the likely exposure is far less due to collateral, credit enhancements and other actions taken to mitigate the Group's exposure.

A description of the credit risk management and measurement methodologies, the credit quality of the assets and the collateral and other credit enhancements held against them is included in the relevant sections within this Note, for each of the categories in the following table:

At 31st December 2008							
The Group	Loans and advances £m	Debt securities £m	Derivatives £m	Reverse repurchase agreements £m	Others £m	Total £m	Credit market exposure £m
<b>On-balance sheet:</b>							
Cash and balances at central banks					30,019	30,019	
Items in course of collection from other banks					1,695	1,695	
<b>Trading portfolio:</b>							
Treasury and other eligible bills		4,544				4,544	
Debt securities		148,686				148,686	4,745
Traded loans	1,070					1,070	
<b>Total trading portfolio</b>	<b>1,070</b>	<b>153,230</b>				<b>154,300</b>	
<b>Financial assets designated at fair value held on own account:</b>							
Loans and advances	30,057				130	30,187	14,429
Debt securities		8,628				8,628	
Other financial assets	1,469			7,283	479	9,231	
<b>Total financial assets designated at fair value held on own account</b>	<b>31,526</b>	<b>8,628</b>		<b>7,283</b>	<b>609</b>	<b>48,046</b>	
Derivative financial instruments			984,802			984,802	9,234
Loans and advances to banks	47,707					47,707	
<b>Loans and advances to customers:</b>							
Residential mortgage loans	135,077					135,077	
Credit card receivables	22,304					22,304	
Other personal lending	32,038					32,038	
Wholesale and corporate loans and advances	259,699					259,699	
Finance lease receivables	12,697					12,697	
<b>Total loans and advances to customers</b>	<b>461,815</b>					<b>461,815</b>	<b>12,808</b>
<b>Available for sale financial investments:</b>							
Treasury and other eligible bills		4,003				4,003	
Debt securities		58,831				58,831	727
<b>Total available for sale financial investments</b>		<b>62,834</b>				<b>62,834</b>	
Reverse repurchase agreements				130,354		130,354	
Other assets					3,096	3,096	109
<b>Total on-balance sheet</b>	<b>542,118</b>	<b>224,692</b>	<b>984,802</b>	<b>137,637</b>	<b>35,419</b>	<b>1,924,668</b>	
<b>Off-balance sheet:</b>							
Acceptances and endorsements						585	
Guarantees and letters of credit pledged as collateral security and securities lending arrangements						53,942	
Commitments						260,816	1,030
<b>Total off-balance sheet</b>						<b>315,343</b>	
<b>Total maximum exposure at 31st December</b>						<b>2,240,011</b>	

## 48 Credit risk (continued)

At 31st December 2008

The Bank	Loans and advances £m	Debt securities £m	Derivatives £m	Reverse repurchase agreements £m	Others £m	Total £m
<b>On-balance sheet:</b>						
<b>Cash and balances at central banks</b>					24,867	24,867
<b>Items in course of collection from other banks</b>					1,466	1,466
<b>Trading portfolio:</b>						
Treasury and other eligible bills		425				425
Debt securities		102,923				102,923
Traded loans	1,047					1,047
<b>Total trading portfolio</b>	1,047	103,348				104,395
<b>Financial assets designated at fair value held on own account:</b>						
Loans and advances	24,596					24,596
Debt securities		7,801				7,801
Other financial assets	1,472				217	1,689
<b>Total financial assets designated at fair value held on own account</b>	26,068	7,801			217	34,086
<b>Derivative financial instruments</b>			1,003,685			1,003,685
<b>Loans and advances to banks</b>	37,824					37,824
<b>Loans and advances to customers:</b>						
Residential mortgage loans	107,663					107,663
Credit card receivables	11,511					11,511
Other personal lending	18,289					18,289
Wholesale and corporate loans and advances	416,082					416,082
Finance lease receivables	344					344
<b>Total loans and advances to customers</b>	553,889					553,889
<b>Available for sale financial investments:</b>						
Treasury and other eligible bills		380				380
Debt securities		57,061				57,061
<b>Total available for sale financial investments</b>		57,441				57,441
<b>Reverse repurchase agreements</b>				128,815		128,815
<b>Other assets</b>					2,268	2,268
<b>Total on-balance sheet</b>	618,828	168,590	1,003,685	128,815	28,818	1,948,736
<b>Off-balance sheet:</b>						
Acceptances and endorsements						546
Guarantees and letters of credit pledged as collateral security and securities lending arrangements						51,615
Commitments						189,081
<b>Total off-balance sheet</b>						241,242
<b>Total maximum exposure at 31st December</b>						2,189,978

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

At 31st December 2007

The Group	Loans and advances £m	Debt securities £m	Derivatives £m	Reverse repurchase agreements £m	Others £m	Total £m	Credit market exposure £m
<b>On-balance sheet:</b>							
<b>Cash and balances at central banks</b>					5,801	5,801	
<b>Items in course of collection from other banks</b>					1,836	1,836	
<b>Trading portfolio:</b>							
Treasury and other eligible bills		2,094				2,094	
Debt securities		152,778				152,778	6,239
Traded loans	1,780					1,780	
<b>Total trading portfolio</b>	1,780	154,872				156,652	
<b>Financial assets designated at fair value held on own account:</b>							
Loans and advances	23,334				157	23,491	15,218
Debt securities		24,217				24,217	
Other financial assets	98			3,056	391	3,545	
<b>Total financial assets designated at fair value held on own account</b>	23,432	24,217		3,056	548	51,253	
<b>Derivative financial instruments</b>			248,088			248,088	445
<b>Loans and advances to banks</b>	40,120					40,120	
<b>Loans and advances to customers:</b>							
Residential mortgage loans	106,619					106,619	
Credit card receivables	14,289					14,289	
Other personal lending	29,857					29,857	
Wholesale and corporate loans and advances	183,556					183,556	11,535
Finance lease receivables	11,077					11,077	
<b>Total loans and advances to customers</b>	345,398					345,398	
<b>Available for sale financial investments:</b>							
Treasury and other eligible bills		2,723				2,723	
Debt securities		38,673				38,673	1,244
<b>Total available for sale financial investments</b>		41,396				41,396	
<b>Reverse repurchase agreements</b>				183,075		183,075	225
<b>Other assets</b>					3,966	3,966	57
<b>Total on-balance sheet</b>	410,730	220,485	248,088	186,131	12,151	1,077,585	
<b>Off-balance sheet:</b>							
Acceptances and endorsements						365	
Guarantees and letters of credit pledged as collateral security and securities lending arrangements						35,692	
Commitments						192,639	3,225
<b>Total off-balance sheet</b>						228,696	
<b>Total maximum exposure at 31st December</b>						1,306,281	



#### 48 Credit risk (continued)

At 31st December 2007

The Bank	Loans and advances £m	Debt securities £m	Derivatives £m	Reverse repurchase agreements £m	Others £m	Total £m
<b>On-balance sheet:</b>						
<b>Cash and balances at central banks</b>					1,919	1,919
<b>Items in course of collection from other banks</b>					1,909	1,909
<b>Trading portfolio:</b>						
Treasury and other eligible bills		1,765				1,765
Debt securities		119,255				119,255
Traded loans	1,775					1,775
<b>Total trading portfolio</b>	1,775	121,020				122,795
<b>Financial assets designated at fair value held on own account:</b>						
Loans and advances	18,806					18,806
Debt securities		17,388				17,388
Other financial assets	7				69	76
<b>Total financial assets designated at fair value held on own account</b>	18,813	17,388			69	36,270
<b>Derivative financial instruments</b>			260,754			260,754
<b>Loans and advances to banks</b>	26,443					26,443
<b>Loans and advances to customers:</b>						
Residential mortgage loans	83,665					83,665
Credit card receivables	10,140					10,140
Other personal lending	13,676					13,676
Wholesale and corporate loans and advances	291,631					291,631
Finance lease receivables	152					152
<b>Total loans and advances to customers</b>	399,264					399,264
<b>Available for sale financial investments:</b>						
Treasury and other eligible bills		335				335
Debt securities		24,594				24,594
<b>Total available for sale financial investments</b>		24,929				24,929
<b>Reverse repurchase agreements</b>				186,554		186,554
<b>Other assets</b>					2,223	2,223
<b>Total on-balance sheet</b>	446,295	163,337	260,754	186,554	6,120	1,063,060
<b>Off-balance sheet:</b>						
Acceptances and endorsements						332
Guarantees and letters of credit pledged as collateral security and securities lending arrangements						32,825
Commitments						187,137
<b>Total off-balance sheet</b>						220,294
<b>Total maximum exposure at 31st December</b>						1,283,354

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### 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.

The analyses of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged.

#### Credit risk concentrations by geographical sector

	2008					Total £m
	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	
<b>The Group</b>						
<b>On-balance sheet:</b>						
Cash and balances at central banks	8,406	11,039	8,381	1,712	481	30,019
Items in the course of collection from other banks	1,447	59	–	169	20	1,695
Trading portfolio	23,865	35,396	66,084	2,770	26,185	154,300
Financial assets designated at fair value held on own account	14,158	7,388	19,738	2,904	3,858	48,046
Derivative financial instruments	317,621	215,054	366,161	4,403	81,563	984,802
Loans and advances to banks	7,524	12,591	13,616	2,189	11,787	47,707
Loans and advances to customers	213,079	91,109	75,826	44,373	37,428	461,815
Available for sale financial investments	15,423	18,928	16,583	3,351	8,549	62,834
Reverse repurchase agreements	22,659	41,724	47,034	848	18,089	130,354
Other assets	1,198	548	550	520	280	3,096
<b>Total on-balance sheet</b>	<b>625,380</b>	<b>433,836</b>	<b>613,973</b>	<b>63,239</b>	<b>188,240</b>	<b>1,924,668</b>
<b>Off-balance sheet:</b>						
Acceptances and endorsements	274	–	6	41	264	585
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	4,433	3,742	42,227	1,738	1,802	53,942
Commitments	103,548	32,445	90,298	23,210	11,315	260,816
<b>Total off-balance sheet</b>	<b>108,255</b>	<b>36,187</b>	<b>132,531</b>	<b>24,989</b>	<b>13,381</b>	<b>315,343</b>
<b>Total</b>	<b>733,635</b>	<b>470,023</b>	<b>746,504</b>	<b>88,228</b>	<b>201,621</b>	<b>2,240,011</b>

	2008					Total £m
	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	
<b>The Bank</b>						
<b>On-balance sheet:</b>						
Cash and balances at central banks	8,295	8,067	8,011	66	428	24,867
Items in the course of collection from other banks	1,404	32	–	10	20	1,466
Trading portfolio	20,912	34,382	29,303	132	19,666	104,395
Financial assets designated at fair value held on own account	16,205	7,147	6,620	143	3,971	34,086
Derivative financial instruments	343,493	215,749	363,801	625	80,017	1,003,685
Loans and advances to banks	5,685	10,752	9,686	1,032	10,669	37,824
Loans and advances to customers	392,153	66,326	59,971	2,987	32,452	553,889
Available for sale financial investments	14,472	23,274	14,231	158	5,306	57,441
Reverse repurchase agreements	24,545	39,511	49,447	10	15,302	128,815
Other assets	1,149	967	99	2	51	2,268
<b>Total on-balance sheet</b>	<b>828,313</b>	<b>406,207</b>	<b>541,169</b>	<b>5,165</b>	<b>167,882</b>	<b>1,948,736</b>
<b>Off-balance sheet:</b>						
Acceptances and endorsements	273	–	6	2	265	546
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	4,363	3,218	42,227	4	1,803	51,615
Commitments	95,823	26,345	54,351	872	11,690	189,081
<b>Total off-balance sheet</b>	<b>100,459</b>	<b>29,563</b>	<b>96,584</b>	<b>878</b>	<b>13,758</b>	<b>241,242</b>
<b>Total</b>	<b>928,772</b>	<b>435,770</b>	<b>637,753</b>	<b>6,043</b>	<b>181,640</b>	<b>2,189,978</b>

## 48 Credit risk (continued)

### Credit risk concentrations by geographical sector

2007						
The Group	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	Total £m
<b>On-balance sheet:</b>						
Cash and balances at central banks	1,458	2,170	206	1,406	561	5,801
Items in the course of collection from other banks	1,638	75	–	110	13	1,836
Trading portfolio	28,959	41,675	53,208	877	31,933	156,652
Financial assets designated at fair value held on own account	15,713	5,907	20,396	958	8,279	51,253
Derivative financial instruments	60,534	75,017	82,975	2,229	27,333	248,088
Loans and advances to banks	5,515	11,102	13,443	2,581	7,479	40,120
Loans and advances to customers	187,824	56,189	39,944	38,653	22,788	345,398
Available for sale financial investments	5,934	18,354	7,818	2,944	6,346	41,396
Reverse repurchase agreements	42,160	51,734	67,018	2,156	20,007	183,075
Other assets	1,813	617	424	698	414	3,966
<b>Total on-balance sheet</b>	<b>351,548</b>	<b>262,840</b>	<b>285,432</b>	<b>52,612</b>	<b>125,153</b>	<b>1,077,585</b>
<b>Off-balance sheet:</b>						
Acceptances and endorsements	227	5	5	34	94	365
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	7,377	1,468	23,696	1,286	1,865	35,692
Commitments	90,964	23,946	48,657	20,471	8,601	192,639
<b>Total off-balance sheet</b>	<b>98,568</b>	<b>25,419</b>	<b>72,358</b>	<b>21,791</b>	<b>10,560</b>	<b>228,696</b>
<b>Total</b>	<b>450,116</b>	<b>288,259</b>	<b>357,790</b>	<b>74,403</b>	<b>135,713</b>	<b>1,306,281</b>

2007						
The Bank	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	Total £m
<b>On-balance sheet:</b>						
Cash and balances at central banks	1,116	278	12	51	462	1,919
Items in the course of collection from other banks	1,853	46	–	1	9	1,909
Trading portfolio	27,390	40,647	29,452	373	24,933	122,795
Financial assets designated at fair value held on own account	10,980	5,810	10,873	126	8,481	36,270
Derivative financial instruments	75,181	74,861	83,705	519	26,488	260,754
Loans and advances to banks	4,505	12,348	1,101	1,413	7,076	26,443
Loans and advances to customers	297,365	38,163	42,137	1,972	19,627	399,264
Available for sale financial investments	4,028	11,242	5,843	221	3,595	24,929
Reverse repurchase agreements	46,724	49,310	75,400	94	15,026	186,554
Other assets	1,637	338	165	23	60	2,223
<b>Total on-balance sheet</b>	<b>470,779</b>	<b>233,043</b>	<b>248,688</b>	<b>4,793</b>	<b>105,757</b>	<b>1,063,060</b>
<b>Off-balance sheet:</b>						
Acceptances and endorsements	228	5	5	–	94	332
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	6,573	1,122	23,415	13	1,702	32,825
Commitments	91,553	23,581	62,601	816	8,586	187,137
<b>Total off-balance sheet</b>	<b>98,354</b>	<b>24,708</b>	<b>86,021</b>	<b>829</b>	<b>10,382</b>	<b>220,294</b>
<b>Total</b>	<b>569,133</b>	<b>257,751</b>	<b>334,709</b>	<b>5,622</b>	<b>116,139</b>	<b>1,283,354</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Credit risk concentrations by industrial sector

	2008									
The Group	Government and Central Banks £m	Financial Services £m	Transport, Postal and communication and Business and other services £m	Agriculture, Manufacturing and Wholesale and retail trade £m	Construction and Property £m	Energy and water £m	Residential mortgage loans £m	Other personal lending £m	Finance lease receivables £m	Total £m
<b>On-balance sheet:</b>										
Cash and balances at central banks	30,019	–	–	–	–	–	–	–	–	30,019
Items in the course of collection from other banks	10	1,685	–	–	–	–	–	–	–	1,695
Trading portfolio	68,962	73,729	3,320	2,590	1,404	4,272	–	4	19	154,300
Financial assets designated at fair value held on own account	5,871	21,860	1,080	1,286	17,415	271	–	263	–	48,046
Derivative financial instruments	10,370	928,793	9,265	14,420	3,779	18,054	–	121	–	984,802
Loans and advances to banks	2,794	44,913	–	–	–	–	–	–	–	47,707
Loans and advances to customers	5,296	112,506	52,243	49,068	29,988	14,078	135,077	50,862	12,697	461,815
Available for sale financial investments	14,891	44,865	1,288	436	333	354	569	98	–	62,834
Reverse repurchase agreements	17,939	110,645	536	428	806	–	–	–	–	130,354
Other assets	103	1,397	602	260	8	12	155	554	5	3,096
<b>Total on-balance sheet</b>	<b>156,255</b>	<b>1,340,393</b>	<b>68,334</b>	<b>68,488</b>	<b>53,733</b>	<b>37,041</b>	<b>135,801</b>	<b>51,902</b>	<b>12,721</b>	<b>1,924,668</b>
<b>Off-balance sheet:</b>										
Acceptances and endorsements	–	151	180	231	14	3	–	6	–	585
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	–	44,858	4,161	2,275	778	1,604	–	266	–	53,942
Commitments	5,096	33,746	32,769	36,815	11,405	16,279	12,196	112,510	–	260,816
<b>Total off-balance sheet</b>	<b>5,096</b>	<b>78,755</b>	<b>37,110</b>	<b>39,321</b>	<b>12,197</b>	<b>17,886</b>	<b>12,196</b>	<b>112,782</b>	<b>–</b>	<b>315,343</b>
<b>Total</b>	<b>161,351</b>	<b>1,419,148</b>	<b>105,444</b>	<b>107,809</b>	<b>65,930</b>	<b>54,927</b>	<b>147,997</b>	<b>164,684</b>	<b>12,721</b>	<b>2,240,011</b>

## 48 Credit risk (continued)

## Credit risk concentrations by industrial sector

	2008									
The Bank	Government and Central Banks £m	Financial Services £m	Transport, Postal and communication and Business and other services £m	Agriculture, Manufacturing and Wholesale and retail trade £m	Con- struction and Property £m	Energy and water £m	Residential mortgage loans £m	Other personal lending £m	Finance lease receivables £m	Total £m
<b>On-balance sheet:</b>										
Cash and balances at central banks	24,867	–	–	–	–	–	–	–	–	24,867
Items in the course of collection from other banks	–	1,466	–	–	–	–	–	–	–	1,466
Trading portfolio	48,966	47,013	2,292	1,466	1,200	3,455	–	3	–	104,395
Financial assets designated at fair value										
held on own account	5,086	15,265	411	554	12,770	–	–	–	–	34,086
Derivative financial instruments	10,058	948,380	9,014	14,420	3,778	18,031	–	4	–	1,003,685
Loans and advances to banks	1,539	36,285	–	–	–	–	–	–	–	37,824
Loans and advances to customers	5,104	294,628	41,970	43,601	20,653	13,377	107,663	26,549	344	553,889
Available for sale financial investments	10,567	44,563	951	378	267	123	568	24	–	57,441
Reverse repurchase agreements	1,021	127,110	256	428	–	–	–	–	–	128,815
Other assets	1	805	961	206	2	4	13	276	–	2,268
<b>Total on-balance sheet</b>	<b>107,209</b>	<b>1,515,515</b>	<b>55,855</b>	<b>61,053</b>	<b>38,670</b>	<b>34,990</b>	<b>108,244</b>	<b>26,856</b>	<b>344</b>	<b>1,948,736</b>
<b>Off-balance sheet:</b>										
Acceptances and endorsements	–	151	149	223	14	3	–	6	–	546
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	–	44,558	2,750	2,042	580	1,551	–	134	–	51,615
Commitments	5,096	45,693	24,392	32,972	10,133	15,577	11,835	43,383	–	189,081
<b>Total off-balance sheet</b>	<b>5,096</b>	<b>90,402</b>	<b>27,291</b>	<b>35,236</b>	<b>10,727</b>	<b>17,131</b>	<b>11,835</b>	<b>43,523</b>	<b>–</b>	<b>241,242</b>
<b>Total</b>	<b>112,305</b>	<b>1,605,917</b>	<b>83,146</b>	<b>96,290</b>	<b>49,397</b>	<b>52,121</b>	<b>120,079</b>	<b>70,379</b>	<b>344</b>	<b>2,189,978</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Credit risk concentrations by industrial sector

	2007									
The Group	Government and Central Banks £m	Financial Services £m	Transport, Postal and communication and Business and other services £m	Agriculture, Manufacturing and Wholesale and retail trade £m	Construction and Property £m	Energy and water £m	Residential mortgage loans £m	Other personal lending £m	Finance lease receivables £m	Total £m
<b>On-balance sheet:</b>										
Cash and balances at central banks	5,801	—	—	—	—	—	—	—	—	5,801
Items in the course of collection from other banks	8	1,828	—	—	—	—	—	—	—	1,836
Trading portfolio	58,608	83,790	4,434	3,928	924	4,072	895	1	—	156,652
Financial assets designated at fair value held on own account	10,914	23,742	570	699	11,325	396	3,509	98	—	51,253
Derivative financial instruments	2,886	227,609	2,771	5,567	1,106	8,031	87	31	—	248,088
Loans and advances to banks	7,881	32,239	—	—	—	—	—	—	—	40,120
Loans and advances to customers	2,036	70,699	41,678	38,170	22,288	8,623	106,619	44,208	11,077	345,398
Available for sale financial investments	8,880	29,693	2,142	249	167	246	—	19	—	41,396
Reverse repurchase agreements	1,713	179,459	416	735	752	—	—	—	—	183,075
Other assets	270	1,506	542	307	168	5	112	1,056	—	3,966
<b>Total on-balance sheet</b>	<b>98,997</b>	<b>650,565</b>	<b>52,553</b>	<b>49,655</b>	<b>36,730</b>	<b>21,373</b>	<b>111,222</b>	<b>45,413</b>	<b>11,077</b>	<b>1,077,585</b>
<b>Off-balance sheet:</b>										
Acceptances and endorsements	—	125	111	91	21	4	—	13	—	365
Guarantees and letters of credit pledged as collateral security and securities lending arrangements	51	17,021	12,847	1,867	538	2,687	1	680	—	35,692
Commitments	4,511	30,492	26,370	32,388	11,282	9,961	10,969	66,666	—	192,639
<b>Total off-balance sheet</b>	<b>4,562</b>	<b>47,638</b>	<b>39,328</b>	<b>34,346</b>	<b>11,841</b>	<b>12,652</b>	<b>10,970</b>	<b>67,359</b>	<b>—</b>	<b>228,696</b>
<b>Total</b>	<b>103,559</b>	<b>698,203</b>	<b>91,881</b>	<b>84,001</b>	<b>48,571</b>	<b>34,025</b>	<b>122,192</b>	<b>112,772</b>	<b>11,077</b>	<b>1,306,281</b>

Loans and advances to customers in the above table have been reanalysed between Agriculture, Manufacturing and Wholesale and retail trade, Residential mortgage loans and Other personal to reflect changes in the internal classification of the assets.

## 48 Credit risk (continued)

## Credit risk concentrations by industrial sector

2007

The Bank	Government and Central Banks £m	Financial Services £m	Transport, Postal and communication and Business and other services £m	Agriculture, Manufacturing and Wholesale and retail trade £m	Construction and Property £m	Energy and water £m	Residential mortgage loans £m	Other personal lending £m	Finance lease receivables £m	Total £m
<b>On-balance sheet:</b>										
Cash and balances at central banks	1,919	—	—	—	—	—	—	—	—	1,919
Items in the course of collection from other banks	1	1,908	—	—	—	—	—	—	—	1,909
Trading portfolio	43,889	66,480	3,892	2,909	795	3,959	870	1	—	122,795
Financial assets designated at fair value										
held on own account	3,519	20,848	350	187	8,279	75	3,012	—	—	36,270
Derivative financial instruments	2,885	240,858	2,729	5,454	820	8,003	1	4	—	260,754
Loans and advances to banks	1,386	25,057	—	—	—	—	—	—	—	26,443
Loans and advances to customers	—	198,612	36,381	32,987	16,444	7,904	83,665	23,119	152	399,264
Available for sale financial investments	6,088	17,982	379	219	168	93	—	—	—	24,929
Reverse repurchase agreements	1,522	184,075	222	735	—	—	—	—	—	186,554
Other assets	129	783	344	45	70	5	124	723	—	2,223
<b>Total on-balance sheet</b>	<b>61,338</b>	<b>756,603</b>	<b>44,297</b>	<b>42,536</b>	<b>26,576</b>	<b>20,039</b>	<b>87,672</b>	<b>23,847</b>	<b>152</b>	<b>1,063,060</b>
<b>Off-balance sheet:</b>										
Acceptances and endorsements	—	124	99	87	22	—	—	—	—	332
Guarantees and letters of credit pledged as collateral security										
and securities lending arrangements	—	15,807	12,067	1,743	420	2,669	—	119	—	32,825
Commitments	4,511	40,029	19,561	31,023	10,150	9,776	8,014	64,073	—	187,137
<b>Total off-balance sheet</b>	<b>4,511</b>	<b>55,960</b>	<b>31,727</b>	<b>32,853</b>	<b>10,592</b>	<b>12,445</b>	<b>8,014</b>	<b>64,192</b>	<b>—</b>	<b>220,294</b>
<b>Total</b>	<b>65,849</b>	<b>812,563</b>	<b>76,024</b>	<b>75,389</b>	<b>37,168</b>	<b>32,484</b>	<b>95,686</b>	<b>88,039</b>	<b>152</b>	<b>1,283,354</b>



# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Loans and advances

##### Credit risk management

##### *Governance and responsibilities*

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 Group Risk Director.

The credit risk function provides Group-wide direction of credit risk-taking. The teams within this function manage the resolution of all significant credit policy issues and run the Credit Committee, which approves major credit decisions. Each business segment has an embedded credit risk management team. These teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses.

The principal committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Wholesale Credit Risk Management Committee, the Retail Credit Risk Management Committee, the Risk Oversight Committee and the Board Risk Committee.

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 and 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.

The monthly Wholesale and Retail Credit Risk Management Committees exercise oversight through review and challenge of the size and constitution of the portfolios when viewed against Group risk appetite for wholesale and retail credit risks. They are chaired by the Group Wholesale and Retail Credit Risk Directors.

##### *Credit monitoring*

Wholesale and corporate loans which are deemed to contain heightened levels of risk are recorded on early-warning or watch lists. These lists are graded in line with the perceived severity of the risk attached to the lending and its probability of default. The lists are updated on a monthly basis and are closely monitored.

Regardless of whether they are recorded on early-warning or watch lists, all wholesale and corporate loans 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.

Retail loans (which tend to comprise homogeneous assets) are monitored on a portfolio basis.

##### *Credit risk measurement*

Barclays uses statistical modelling techniques throughout its business in its credit rating systems. They enable a coherent approach to risk measurement across all credit exposures, retail and wholesale. The key building blocks in the measurement system are the probability of customer default (PD), exposure in the event of default (EAD), and severity of loss-given-default (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

For wholesale and corporate lending, Barclays assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. Barclays credit rating contains 21 grades, representing the Group's best estimate of credit risk for a counterparty based on current economic conditions. Retail customers are not all assigned internal risk ratings in this way for account management purposes, therefore their probability of default is considered.

The Group also considers Credit Risk Loans (defined as all customers overdue by 90 days or more and/or individually impaired or restructured) and loan loss rates when assessing the credit performance of its loan portfolios, other than those held at fair value. For the purposes of historical and business unit comparison, loan loss rates are defined as total credit impairment charge (excluding available for sale assets and reverse repurchase agreements) divided by gross loans and advances to customers and banks (at amortised cost).

##### *Credit risk mitigation*

Where appropriate, the Group takes action to mitigate credit risk such as reducing amounts outstanding (in discussion with the customers, clients or counterparties if appropriate), using credit derivatives, securitising assets; and selling them.

Diversification to avoid unwanted credit risk concentrations is achieved through setting maximum exposure guidelines to individual counterparties. Excesses are reported to the Risk Oversight Committee and the Board Risk Committee. Mandate and scale limits are used to limit the stock of current exposures in a loan portfolio and the flow of new exposures into a loan portfolio. Limits are typically based on the tenor and nature of the lending.

##### *Collateral and security*

The Group routinely obtains collateral and security to mitigate credit risk.

The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. Before attaching value to collateral, businesses holding specific, agreed classes of collateral must ensure that they are holding a correctly perfected charge.

Before reliance is placed on third party protection in the form of bank, government or corporate guarantees or credit derivative protection from financial intermediary counterparties, a credit assessment is undertaken.

Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

#### 48 Credit risk (continued)

All loans and advances are categorised as either:

- neither past due nor individually impaired;
- past due but not individually impaired; or
- individually impaired.

The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.

Credit risk loans comprise loans and advances to banks and customers 90 days overdue or more and those subject to individual impairment. The coverage ratio is calculated by reference to the total impairment allowance and the carrying value (before impairment) of credit risk loans.

As at 31st December 2008								
The Group	Neither past due nor individually impaired <sup>a</sup> £m	Past due but not individually impaired <sup>b</sup> £m	Individually impaired £m	Total £m	Impairment allowance £m	Total carrying value £m	Credit Risk Loans £m	Coverage ratio %
<b>Trading portfolio:</b>								
Traded loans	1,070	–	–	1,070	–	1,070	–	–
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	29,182	875	–	30,057	–	30,057	–	–
Other financial assets	1,469	–	–	1,469	–	1,469	–	–
<b>Loans and advances to banks</b>	<b>46,665</b>	<b>1,045</b>	<b>48</b>	<b>47,758</b>	<b>(51)</b>	<b>47,707</b>	<b>48</b>	<b>100.0</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	126,363	7,413	1,608	135,384	(307)	135,077	2,403	12.8
Credit card receivables	21,092	1,426	1,231	23,749	(1,445)	22,304	1,990	72.6
Other personal lending	30,539	1,342	2,040	33,921	(1,883)	32,038	2,685	70.1
Wholesale and corporate loans and advances	246,505	8,307	7,586	262,398	(2,699)	259,699	8,277	32.6
Finance lease receivables	12,367	285	234	12,886	(189)	12,697	297	63.6
<b>Total</b>	<b>515,252</b>	<b>20,693</b>	<b>12,747</b>	<b>548,692</b>	<b>(6,574)</b>	<b>542,118</b>	<b>15,700</b>	<b>41.9</b>

As at 31st December 2008								
The Bank	Neither past due nor individually impaired <sup>a</sup> £m	Past due but not individually impaired <sup>b</sup> £m	Individually impaired £m	Total £m	Impairment allowance £m	Total carrying value £m	Credit Risk Loans £m	Coverage ratio %
<b>Trading portfolio:</b>								
Traded loans	1,047	–	–	1,047	–	1,047	–	–
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	23,783	813	–	24,596	–	24,596	–	–
Other financial assets	1,472	–	–	1,472	–	1,472	–	–
<b>Loans and advances to banks</b>	<b>36,778</b>	<b>1,049</b>	<b>48</b>	<b>37,875</b>	<b>(51)</b>	<b>37,824</b>	<b>48</b>	<b>100.0</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	100,426	6,822	506	107,754	(91)	107,663	1,141	8.0
Credit card receivables	10,783	811	818	12,412	(901)	11,511	1,127	79.9
Other personal lending	17,451	715	1,355	19,521	(1,232)	18,289	1,705	72.3
Wholesale and corporate loans and advances	407,329	4,159	7,593	419,081	(2,999)	416,082	8,044	37.3
Finance lease receivables	344	–	–	344	–	344	–	–
<b>Total</b>	<b>599,413</b>	<b>14,369</b>	<b>10,320</b>	<b>624,102</b>	<b>(5,274)</b>	<b>618,828</b>	<b>12,065</b>	<b>43.7</b>

#### Notes

<sup>a</sup> Financial assets subject to collective impairment allowance are included in this column if they are not past due.

<sup>b</sup> Financial assets subject to collective impairment allowance are included in this column if they are past due.

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

As at 31st December 2007								
	Neither past due nor individually impaired <sup>a</sup> £m	Past due but not individually impaired <sup>b</sup> £m	Individually impaired £m	Total £m	Impairment allowance £m	Total carrying value £m	Credit Risk Loans £m	Coverage ratio %
<b>The Group</b>								
<b>Trading portfolio:</b>								
Traded loans	1,780	–	–	1,780	–	1,780	–	–
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	22,977	357	–	23,334	–	23,334	–	–
Other financial assets	98	–	–	98	–	98	–	–
<b>Loans and advances to banks</b>	37,601	2,522	–	40,123	(3)	40,120	–	–
<b>Loans and advances to customers:</b>								
Residential mortgage loans	100,323	5,813	615	106,751	(132)	106,619	1,014	13.0
Credit card receivables	12,587	1,026	1,517	15,130	(841)	14,289	1,568	53.6
Other personal lending	28,569	1,020	1,641	31,230	(1,373)	29,857	1,822	75.4
Wholesale and corporate loans and advances	171,949	7,987	4,930	184,866	(1,310)	183,556	5,058	25.9
Finance lease receivables	10,890	159	141	11,190	(113)	11,077	179	63.1
<b>Total</b>	386,774	18,884	8,844	414,502	(3,772)	410,730	9,641	39.1
As at 31st December 2007								
	Neither past due nor individually impaired <sup>a</sup> £m	Past due but not individually impaired <sup>b</sup> £m	Individually impaired £m	Total £m	Impairment allowance £m	Total carrying value £m	Credit Risk Loans £m	Coverage ratio %
<b>The Bank</b>								
<b>Trading portfolio:</b>								
Traded loans	1,775	–	–	1,775	–	1,775	–	–
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	18,519	287	–	18,806	–	18,806	–	–
Other financial assets	7	–	–	7	–	7	–	–
<b>Loans and advances to banks</b>	24,605	1,841	–	26,446	(3)	26,443	–	–
<b>Loans and advances to customers:</b>								
Residential mortgage loans	77,904	5,554	263	83,721	(56)	83,665	662	8.5
Credit card receivables	8,645	818	1,410	10,873	(733)	10,140	1,558	47.0
Other personal lending	12,289	865	1,470	14,624	(948)	13,676	1,797	52.8
Wholesale and corporate loans and advances	283,694	4,397	4,568	292,659	(1,028)	291,631	4,690	21.9
Finance lease receivables	158	–	–	158	(6)	152	–	–
<b>Total</b>	427,596	13,762	7,711	449,069	(2,774)	446,295	8,707	31.9

#### Notes

<sup>a</sup> Financial assets subject to collective impairment allowance are included in this column if they are not past due.

<sup>b</sup> Financial assets subject to collective impairment allowance are included in this column if they are past due.

#### 48 Credit risk (continued)

##### Credit quality of loans and advances neither past due nor individually impaired

The Group	2008				2007			
	Strong £m	Satisfactory £m	Higher risk £m	Total £m	Strong £m	Satisfactory £m	Higher risk £m	Total £m
<b>Trading portfolio:</b>								
Traded loans	759	220	91	1,070	223	1,228	329	1,780
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	25,665	2,792	725	29,182	13,687	6,186	3,104	22,977
Other financial assets	–	1,469	–	1,469	98	–	–	98
<b>Loans and advances to banks</b>	<b>40,181</b>	<b>6,384</b>	<b>100</b>	<b>46,665</b>	<b>35,635</b>	<b>1,955</b>	<b>11</b>	<b>37,601</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	82,363	42,770	1,230	126,363	60,563	38,000	1,760	100,323
Credit card receivables	–	20,426	666	21,092	–	12,582	5	12,587
Other personal lending	7,549	21,750	1,240	30,539	5,061	22,619	889	28,569
Wholesale and corporate loans and advances	141,868	94,453	10,184	246,505	114,693	54,828	2,428	171,949
Finance lease receivables	4,214	7,504	649	12,367	4,586	6,036	268	10,890
<b>Total loans and advances</b>	<b>302,599</b>	<b>197,768</b>	<b>14,885</b>	<b>515,252</b>	<b>234,546</b>	<b>143,434</b>	<b>8,794</b>	<b>386,774</b>

The Bank	2008				2007			
	Strong £m	Satisfactory £m	Higher risk £m	Total £m	Strong £m	Satisfactory £m	Higher risk £m	Total £m
<b>Trading portfolio:</b>								
Traded loans	759	220	68	1,047	207	1,197	371	1,775
<b>Financial assets designated at fair value held on own account:</b>								
Loans and advances	21,211	1,518	1,054	23,783	15,200	646	2,673	18,519
Other financial assets	–	1,472	–	1,472	7	–	–	7
<b>Loans and advances to banks</b>	<b>34,708</b>	<b>1,981</b>	<b>89</b>	<b>36,778</b>	<b>23,634</b>	<b>960</b>	<b>11</b>	<b>24,605</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	83,139	17,182	105	100,426	61,011	16,893	–	77,904
Credit card receivables	–	10,783	–	10,783	–	8,645	–	8,645
Other personal lending	4,838	11,656	957	17,451	2,086	10,050	153	12,289
Wholesale and corporate loans and advances	329,384	68,385	9,560	407,329	233,069	48,077	2,548	283,694
Finance lease receivables	2	342	–	344	5	153	–	158
<b>Total loans and advances</b>	<b>474,041</b>	<b>113,539</b>	<b>11,833</b>	<b>599,413</b>	<b>335,219</b>	<b>86,621</b>	<b>5,756</b>	<b>427,596</b>

For the purposes of the analysis of credit quality, the following internal measures of credit quality have been used:

Financial statements description	Retail lending	Wholesale lending	
	Probability of default	Probability of default	Default grade
Strong	0.0-0.60%	0.0-0.05% 0.05-0.15% 0.15-0.30% 0.30-0.60%	1-3 4-5 6-8 9-11
Satisfactory	0.60-10.00%	0.60-2.15% 2.15-11.35%	11-14 15-19
Higher risk	10.00% +	11.35% +	20-21

Financial statement descriptions can be summarised as follows:

Strong – there is a very high likelihood that the asset being recovered in full.

Satisfactory – whilst there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Group, the asset may not be collateralised, or may relate to retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification. At the lower end of this grade there are customers that are being more carefully monitored, for example corporate customers, which are indicating some evidence of some deterioration, mortgages with a high loan to value ratio, and unsecured retail loans operating outside normal product guidelines.

Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Loans and advances that are past due but not individually impaired

An age analysis of loans and advances that are past due but not individually impaired is set out below.

For the purposes of this analysis an asset is considered past due and included below when any payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset, not just the payment, of principal or interest or both, overdue.

The table below provides a breakdown of total financial assets past due but not individually impaired. In general, retail and wholesale loans fall into this category for two separate reasons. Retail loans and advances to customers may come under this category because the impairment allowance on such loans is calculated on a collective – not individual – basis. This reflects the homogenous nature of the assets, which allows statistical techniques to be used, rather than individual assessment.

In contrast, some loans to wholesale and corporate customers and banks may come under this category because of instances where a payment on a loan is past due without requiring an individual impairment allowance. For example, an individual impairment allowance will not be required when a loss is not expected due to a corporate loan being fully secured or collateralised. As a result, it is past due but not individually impaired.

The Group	2008					Total £m	Of which Credit Risk Loans £m
	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m		
<b>Financial assets designated at fair value held on own account:</b>							
Loans and advances	315	147	81	82	250	875	–
<b>Loans and advances to banks</b>	<b>1,044</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,045</b>	<b>–</b>
<b>Loans and advances to customers:</b>							
Residential mortgage loans	4,420	1,568	630	713	82	7,413	795
Credit card receivables	293	224	150	291	468	1,426	759
Other personal lending	220	204	273	338	307	1,342	645
Wholesale and corporate loans and advances	6,229	540	847	477	214	8,307	691
Finance lease receivables	130	53	39	63	–	285	63
<b>Total loans and advances to customers</b>	<b>11,292</b>	<b>2,589</b>	<b>1,939</b>	<b>1,882</b>	<b>1,071</b>	<b>18,773</b>	<b>2,953</b>
<b>Total financial assets past due but not individually impaired</b>	<b>12,651</b>	<b>2,737</b>	<b>2,020</b>	<b>1,964</b>	<b>1,321</b>	<b>20,693</b>	<b>2,953</b>

The Bank	2008					Total £m	Of which Credit Risk Loans £m
	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m		
<b>Financial assets designated at fair value held on own account:</b>							
Loans and advances	313	147	80	77	196	813	–
<b>Loans and advances to banks</b>	<b>1,049</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,049</b>	<b>–</b>
<b>Loans and advances to customers:</b>							
Residential mortgage loans	4,177	1,478	532	553	82	6,822	635
Credit card receivables	213	168	121	122	187	811	309
Other personal lending	58	120	187	149	201	715	350
Wholesale and corporate loans and advances	3,275	211	222	246	205	4,159	451
Finance lease receivables	–	–	–	–	–	–	–
<b>Total loans and advances to customers</b>	<b>7,723</b>	<b>1,977</b>	<b>1,062</b>	<b>1,070</b>	<b>675</b>	<b>12,507</b>	<b>1,745</b>
<b>Total financial assets past due but not individually impaired</b>	<b>9,085</b>	<b>2,124</b>	<b>1,142</b>	<b>1,147</b>	<b>871</b>	<b>14,369</b>	<b>1,745</b>

## 48 Credit risk (continued)

	2007						
	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m	Of which Credit Risk Loans £m
The Group							
Financial assets designated at fair value held on own account:							
Loans and advances	261	4	1	24	67	357	–
Loans and advances to banks	2,031	305	186	–	–	2,522	–
Loans and advances to customers:							
Residential mortgage loans	3,609	1,349	456	215	184	5,813	399
Credit card receivables	558	155	107	205	1	1,026	51
Other personal lending	271	199	193	152	205	1,020	181
Wholesale and corporate loans and advances	6,970	622	267	62	66	7,987	128
Finance lease receivables	75	28	18	38	–	159	38
Total loans and advances to customers	11,483	2,353	1,041	672	456	16,005	797
Total financial assets past due but not individually impaired	13,775	2,662	1,228	696	523	18,884	797

	2007						
	Past due up to 1 month £m	Past due 1-2 months £m	Past due 2-3 months £m	Past due 3-6 months £m	Past due 6 months and over £m	Total £m	Of which Credit Risk Loans £m
The Bank							
Financial assets designated at fair value held on own account:							
Loans and advances	256	1	1	2	27	287	–
Loans and advances to banks	1,362	301	178	–	–	1,841	–
Loans and advances to customers:							
Residential mortgage loans	3,509	1,316	330	215	184	5,554	399
Credit card receivables	466	124	80	147	1	818	148
Other personal lending	180	180	178	122	205	865	327
Wholesale and corporate loans and advances	3,601	519	155	56	66	4,397	122
Finance lease receivables	–	–	–	–	–	–	–
Total loans and advances to customers	7,756	2,139	743	540	456	11,634	996
Total financial assets past due but not individually impaired	9,374	2,441	922	542	483	13,762	996

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Loans and advances individually assessed as impaired

An analysis of financial assets individually assessed as impaired is as follows:

	2008			2007		
	Original carrying amount £m	Impairment allowance £m	Revised carrying amount £m	Original carrying amount £m	Impairment allowance £m	Revised carrying amount £m
<b>The Group</b>						
<b>Loans and advances to banks individually impaired</b>	<b>48</b>	<b>(44)</b>	<b>4</b>	–	–	–
<b>Loans and advances to customers:</b>						
Residential mortgage loans	1,608	(227)	1,381	615	(88)	527
Credit card receivables	1,231	(727)	504	1,517	(725)	792
Other personal lending	2,040	(1,250)	790	1,641	(1,030)	611
Wholesale and corporate loans and advances	7,586	(2,310)	5,276	4,930	(944)	3,986
Finance lease receivables	234	(140)	94	141	(102)	39
<b>Total loans and advances individually impaired</b>	<b>12,747</b>	<b>(4,698)</b>	<b>8,049</b>	<b>8,844</b>	<b>(2,889)</b>	<b>5,955</b>
<b>Collective impairment allowance</b>		<b>(1,876)</b>			<b>(883)</b>	
<b>Total impairment allowance</b>		<b>(6,574)</b>			<b>(3,772)</b>	
	2008			2007		
	Original carrying amount £m	Impairment allowance £m	Revised carrying amount £m	Original carrying amount £m	Impairment allowance £m	Revised carrying amount £m
<b>The Bank</b>						
<b>Loans and advances to banks individually impaired</b>	<b>48</b>	<b>(44)</b>	<b>4</b>	–	–	–
<b>Loans and advances to customers:</b>						
Residential mortgage loans	506	(64)	442	263	(33)	230
Credit card receivables	818	(489)	329	1,410	(716)	694
Other personal lending	1,355	(868)	487	1,470	(982)	488
Wholesale and corporate loans and advances	7,593	(2,746)	4,847	4,568	(478)	4,090
Finance lease receivables	–	–	–	–	–	–
<b>Total loans and advances individually impaired</b>	<b>10,320</b>	<b>(4,211)</b>	<b>6,109</b>	<b>7,711</b>	<b>(2,209)</b>	<b>5,502</b>
<b>Collective impairment allowance</b>		<b>(1,063)</b>			<b>(565)</b>	
<b>Total impairment allowance</b>		<b>(5,274)</b>			<b>(2,774)</b>	

#### 48 Credit risk (continued)

The movements on the impairment allowance during the year were as follows:

2008								
The Group	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to profit £m	Balance at 31st December £m
<b>Loans and advances to banks</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>7</b>	<b>40</b>	<b>51</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	132	–	(35)	19	(44)	3	232	307
Credit card receivables	841	306	(68)	94	(845)	69	1,048	1,445
Other personal lending	1,373	1	(32)	134	(525)	42	890	1,883
Wholesale and corporate loans and advances	1,310	–	–	506	(1,428)	41	2,270	2,699
Finance lease receivables	113	–	–	37	(77)	12	104	189
<b>Total loans and advances to customers</b>	<b>3,769</b>	<b>307</b>	<b>(135)</b>	<b>790</b>	<b>(2,919)</b>	<b>167</b>	<b>4,544</b>	<b>6,523</b>
<b>Total impairment allowance</b>	<b>3,772</b>	<b>307</b>	<b>(135)</b>	<b>791</b>	<b>(2,919)</b>	<b>174</b>	<b>4,584</b>	<b>6,574</b>

2008								
The Bank	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to profit £m	Balance at 31st December £m
<b>Loans and advances to banks</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>5</b>	<b>42</b>	<b>51</b>
<b>Loans and advances to customers:</b>								
Residential mortgage loans	56	–	(1)	3	(6)	1	38	91
Credit card receivables	733	–	(68)	78	(526)	58	626	901
Other personal lending	948	–	(32)	98	(425)	24	619	1,232
Wholesale and corporate loans and advances	1,028	–	–	455	(529)	30	2,015	2,999
Finance lease receivables	6	–	–	2	–	–	(8)	–
<b>Total loans and advances to customers</b>	<b>2,771</b>	<b>–</b>	<b>(101)</b>	<b>636</b>	<b>(1,486)</b>	<b>113</b>	<b>3,290</b>	<b>5,223</b>
<b>Total impairment allowance</b>	<b>2,774</b>	<b>–</b>	<b>(101)</b>	<b>637</b>	<b>(1,486)</b>	<b>118</b>	<b>3,332</b>	<b>5,274</b>



# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

	2007							
	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to profit £m	Balance at 31st December £m
<b>The Group</b>								
<b>Loans and advances to banks</b>	4	–	–	–	(1)	13	(13)	3
<b>Loans and advances to customers:</b>								
Residential mortgage loans	124	–	–	2	(5)	5	6	132
Credit card receivables	1,030	(75)	(60)	4	(819)	103	658	841
Other personal lending	1,139	–	(53)	10	(668)	54	891	1,373
Wholesale and corporate loans and advances	939	1	–	37	(440)	46	727	1,310
Finance lease receivables	99	1	–	–	(30)	6	37	113
<b>Total loans and advances to customers</b>	<b>3,331</b>	<b>(73)</b>	<b>(113)</b>	<b>53</b>	<b>(1,962)</b>	<b>214</b>	<b>2,319</b>	<b>3,769</b>
<b>Total impairment allowance</b>	<b>3,335</b>	<b>(73)</b>	<b>(113)</b>	<b>53</b>	<b>(1,963)</b>	<b>227</b>	<b>2,306</b>	<b>3,772</b>

	2007							
	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to profit £m	Balance at 31st December £m
<b>The Bank</b>								
<b>Loans and advances to banks</b>	2	–	–	–	–	–	1	3
<b>Loans and advances to customers:</b>								
Residential mortgage loans	52	–	(1)	–	(5)	2	8	56
Credit card receivables	935	(77)	(59)	11	(729)	97	555	733
Other personal lending	898	–	(33)	4	(476)	35	520	948
Wholesale and corporate loans and advances	673	–	–	23	(429)	53	708	1,028
Finance lease receivables	6	–	–	–	–	–	–	6
<b>Total loans and advances to customers</b>	<b>2,564</b>	<b>(77)</b>	<b>(93)</b>	<b>38</b>	<b>(1,639)</b>	<b>187</b>	<b>1,791</b>	<b>2,771</b>
<b>Total impairment allowance</b>	<b>2,566</b>	<b>(77)</b>	<b>(93)</b>	<b>38</b>	<b>(1,639)</b>	<b>187</b>	<b>1,792</b>	<b>2,774</b>

### Loan Loss Rates

	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Impairment charge £m	Loan Loss Rate bp
<b>The Group</b>					
<b>As at 31st December 2008</b>	<b>516,096</b>	<b>(6,574)</b>	<b>509,522</b>	<b>4,913</b>	<b>95</b>
As at 31st December 2007	389,290	(3,772)	385,518	2,782	71
<b>The Bank</b>					
<b>As at 31st December 2008</b>	<b>596,987</b>	<b>(5,274)</b>	<b>591,713</b>	<b>3,656</b>	<b>61</b>
As at 31st December 2007	428,481	(2,774)	425,707	2,268	53

#### 48 Credit risk (continued)

##### Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

##### Collateral and other credit enhancements held

Financial assets that are past due or individually assessed as impaired may be partially or fully collateralised or subject to other forms of credit enhancement.

Assets in these categories subject to collateralisation are mainly corporate loans, residential mortgage loans and finance lease receivables. Credit card receivables and other personal lending are generally unsecured (although in some instances a charge over the borrowers property of other assets may be sought).

##### Corporate loans

Security is usually taken in the form of a fixed charge over the borrower's property or a floating charge over the assets of the borrower. Loan covenants may be put in place to safeguard the Group's financial position. If the exposure is sufficiently large, either individually or at the portfolio level, credit protection in the form of guarantees, credit derivatives or insurance may be taken out.

For these and other reasons collateral given is only accurately valued on origination of the loan or in the course of enforcement actions and as a result it is not practicable to estimate the fair value of the collateral held.

##### Residential mortgage loans

These are secured by a fixed charge over the property.

A description and the estimated fair value of collateral held in respect of residential mortgage loans that are past due or individually assessed as impaired is as follows:

Nature of assets	The Group		The Bank	
	2008 Fair value £m	2007 Fair value £m	2008 Fair value £m	2007 Fair value £m
Residential property	7,264	6,488	6,282	5,542

Collateral included in the above table reflects the Group's interest in the property in the event of default. That held in the form of charges against residential property in the UK is restricted to the outstanding loan balance. In other territories, where the Group is not obliged to return any sale proceeds to the mortgagee, the full estimated fair value has been included.

##### Finance lease receivables

The net investment in the lease is secured through retention of legal title to the leased assets.

##### Collateral and other credit enhancements obtained

The carrying value of assets held by the Group as at 31st December 2008 as a result of the enforcement of collateral was as follows:

Nature of assets	The Group		The Bank	
	2008 Carrying amount £m	2007 Carrying amount £m	2008 Carrying amount £m	2007 Carrying amount £m
Residential property	171	34	20	—
Commercial and industrial property	2	1	1	—
Other credit enhancements	61	—	36	—
Total	234	35	57	—

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay the outstanding loan. For business customers, in some circumstances, where excess funds are available after repayment in full of the outstanding loan, they are offered to any other, lower ranked, secured lenders. Any additional funds are returned to the customer. Barclays does not, as a rule, occupy repossessed properties for its business use.

The Group does not use assets obtained in its operations. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of the Group, the borrower and the borrower's other creditors in accordance with the relevant insolvency regulations.

# Notes to the accounts

## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Debt securities

Trading portfolio assets, financial assets designated at fair value and available for sale assets are measured on a fair value basis. The fair value will reflect, among other things, the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Group mainly uses external credit ratings provided by Standard & Poors' or Moody's. Where such ratings are not available or are not current, the Group will use its own internal ratings for the securities.

An analysis of the credit quality of the Group's debt securities is set out below:

	2008				2007			
	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B- and below £m	Total £m	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B- and below £m	Total
<b>The Group</b>								
<b>Trading portfolio:</b>								
Treasury and other eligible bills	4,491	53	–	4,544	1,984	110	–	2,094
Debt securities	141,454	5,556	1,676	148,686	143,161	8,958	659	152,778
<b>Total trading portfolio</b>	<b>145,945</b>	<b>5,609</b>	<b>1,676</b>	<b>153,230</b>	<b>145,145</b>	<b>9,068</b>	<b>659</b>	<b>154,872</b>
<b>Financial assets designated at fair value held on own account:</b>								
Debt securities	1,222	7,406	–	8,628	10,010	14,207	–	24,217
<b>Available for sale financial investments:</b>								
Treasury and other eligible bills	2,823	1,180	–	4,003	2,130	593	–	2,723
Debt securities	55,817	2,347	667	58,831	36,623	1,528	522	38,673
<b>Total available for sale financial investments</b>	<b>58,640</b>	<b>3,527</b>	<b>667</b>	<b>62,834</b>	<b>38,753</b>	<b>2,121</b>	<b>522</b>	<b>41,396</b>
<b>Total debt securities</b>	<b>205,807</b>	<b>16,542</b>	<b>2,343</b>	<b>224,692</b>	<b>193,908</b>	<b>25,396</b>	<b>1,181</b>	<b>220,485</b>
%	91.6	7.4	1.0	100.0	88.0	11.5	0.5	100.0

In addition to the above, there are impaired available for sale debt securities with a carrying value at 31st December 2008 of £329m (2007: £432m), after a write-down of £363m (2007: £13m).

	2008				2007			
	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B- and below £m	Total £m	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B- and below £m	Total
<b>The Bank</b>								
<b>Trading portfolio:</b>								
Treasury and other eligible bills	383	42	–	425	1,764	1	–	1,765
Debt securities	97,485	4,286	1,152	102,923	111,130	7,502	623	119,255
<b>Total trading portfolio</b>	<b>97,868</b>	<b>4,328</b>	<b>1,152</b>	<b>103,348</b>	<b>112,894</b>	<b>7,503</b>	<b>623</b>	<b>121,020</b>
<b>Financial assets designated at fair value held on own account:</b>								
Debt securities	–	7,801	–	7,801	3,084	14,304	–	17,388
<b>Available for sale financial investments:</b>								
Treasury and other eligible bills	222	158	–	380	114	221	–	335
Debt securities	54,713	2,024	324	57,061	22,596	1,503	418	24,517
<b>Total available for sale financial investments</b>	<b>54,935</b>	<b>2,182</b>	<b>324</b>	<b>57,441</b>	<b>22,710</b>	<b>1,724</b>	<b>418</b>	<b>24,852</b>
<b>Total debt securities</b>	<b>152,803</b>	<b>14,311</b>	<b>1,476</b>	<b>168,590</b>	<b>138,688</b>	<b>23,531</b>	<b>1,041</b>	<b>163,260</b>
%	90.6	8.5	0.9	100.0	85.0	14.4	0.6	100.0

Collateral is not generally obtained directly from the issuers of debt securities. Certain debt securities may be collateralised by specifically identified assets that would be obtained in the event of default.

## 48 Credit risk (continued)

### Derivatives

Derivatives are measured on a fair value basis.

The credit quality of the Group's derivative assets according to the credit quality of the counterparty at 31st December 2008 and 2007 was as follows:

	2008				2007			
	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m
<b>The Group</b>								
<b>Derivatives</b>	<b>939,071</b>	<b>42,266</b>	<b>3,465</b>	<b>984,802</b>	<b>243,491</b>	<b>3,630</b>	<b>967</b>	<b>248,088</b>
%	95.3	4.3	0.4	100.0	98.1	1.5	0.4	100.0
	2008				2007			
	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m
<b>The Bank</b>								
<b>Derivatives</b>	<b>957,206</b>	<b>43,020</b>	<b>3,459</b>	<b>1,003,685</b>	<b>256,271</b>	<b>3,516</b>	<b>967</b>	<b>260,754</b>
%	95.4	4.3	0.3	100.0	98.3	1.3	0.4	100.0

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Group policy requires all netting arrangements to be legally documented. The ISDA Master Agreement is the Group's preferred agreement for documenting OTC derivatives. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-determined events occur.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or nature of the transaction. Any collateral taken in respect of OTC trading exposures will be subject to a 'haircut' which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security. The collateral obtained for derivatives is either cash, direct debt obligation government (G14+) bonds denominated in the domestic currency of the issuing country, debt issued by supranationals or letters of credit issued by an institution with a long-term unsecured debt rating of A+/A3 or better. Where the Group has ISDA master agreements, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give Barclays the power to realise any collateral placed with it in the event of the failure of the counterparty, and to place further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

Derivative assets and liabilities would be £917,074m (2007: £215,585m) lower than reported if netting were permitted for assets and liabilities with the same counterparty or for which the Group holds cash collateral.

### Reverse repurchase agreements

Reverse repurchase agreements and securities borrowing arrangements are collateralised loans typically of short maturities.

The loans are fully collateralised with highly liquid securities legally transferred to the Group. The level of collateral is monitored daily and further collateral called when required.

	2008				2007			
	AAA to BBB– (investment grade) £m	BB+ to B £m	B– and below £m	Total £m	AAA to BBB– (investment grade) £m	BB+ to B £m	B– and below £m	Total £m
<b>The Group</b>								
<b>Financial assets designated at fair value held on own account:</b>								
Other financial assets	3,882	3,401	–	7,283	3,056	–	–	3,056
<b>Reverse repurchase agreements</b>	<b>122,188</b>	<b>6,101</b>	<b>2,065</b>	<b>130,354</b>	<b>180,637</b>	<b>2,391</b>	<b>47</b>	<b>183,075</b>
<b>Total Reverse repurchase agreements</b>	<b>126,070</b>	<b>9,502</b>	<b>2,065</b>	<b>137,637</b>	<b>183,693</b>	<b>2,391</b>	<b>47</b>	<b>186,131</b>
%	91.6	6.9	1.5	100.0	98.7	1.3	–	100.0

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## For the year ended 31st December 2008

### 48 Credit risk (continued)

#### Reverse repurchase agreements (continued)

	2008				2007			
	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m	AAA to BBB– (investment grade) £m	Satisfactory BB+ to B £m	B– and below £m	Total £m
<b>The Bank</b>								
<b>Financial assets designated at fair value held on own account:</b>								
Other financial assets	–	–	–	–	69	–	–	69
<b>Reverse repurchase agreements</b>	<b>122,987</b>	<b>3,938</b>	<b>1,890</b>	<b>128,815</b>	184,997	1,555	2	186,554
<b>Total Reverse repurchase agreements</b>	<b>122,987</b>	<b>3,938</b>	<b>1,890</b>	<b>128,815</b>	185,066	1,555	2	186,623
%	95.5	3.1	1.4	100.0	99.2	0.8	–	100.0

No reverse repurchase agreements held by the Group at 31st December 2008 or 2007 were individually impaired, however, during the year, the Group wrote off £124m of reverse repurchase agreements (2007: £nil).

#### Other credit risk assets

The Group's other assets that are subject to credit risk are cash with central banks of £30,019m (2007: £5,801m), items in course of collection from other banks £1,695m (2007: £1,836m), other financial assets £3,096m (2007: £3,966m).

#### Cash and balances at central banks

Substantially all balances are held with central banks. There is limited credit risk in relation to balances at central banks.

#### Items in the course of collection from other banks

There is limited credit risk in relation to items in the course of collection through the clearing system from other banks.

#### Other financial assets

Other financial assets comprise £3,096m (2007: £3,966m) of other assets and £609m (2007: £548m) of assets held at fair value.

#### Off-balance sheet

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

#### Credit market exposures

Barclays Capital's credit market exposures primarily relate to US residential mortgages, commercial mortgages and leveraged finance businesses that have been significantly impacted by the continued deterioration in the global credit markets. The exposures include both significant positions subject to fair value movements in the profit and loss account and positions that are classified as loans and advances and available for sale. None of the exposure disclosed below has been reclassified to loans and advances under the amendments to IAS 39.

The exposures are set out by asset class below:

	£m	
	As at 31.12.08	As at 31.12.07
<b>US Residential Mortgages</b>		
ABS CDO Super Senior	3,104	4,671
Other US sub-prime	3,441	5,037
Alt-A	4,288	4,916
<b>US RMBS exposure wrapped by monoline insurers</b>	<b>1,639</b>	<b>730</b>
<b>Commercial mortgages</b>		
Commercial real estate	11,578	11,103
Commercial mortgage-backed securities	735	1,296
CMBS exposure wrapped by monoline insurers	1,854	197
<b>Other Credit Market Exposures</b>		
Leveraged finance	10,391	9,027
SIVs and SIV-Lites	963	784
CDPCs	150	19
<b>CLO and other exposure wrapped by monoline insurers</b>	<b>4,939</b>	<b>408</b>

## 49 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that it will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

### 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 critical process: any failure to meet specific intraday commitments would have significant consequences, such as visible market disruption.

The Group policy is that each operation must ensure that it has access to sufficient intraday liquidity to meet any obligations it may have to clearing and settlement systems. Major currency payment flows and payment system collateral are monitored and managed in real time to ensure that at all times there is sufficient collateral to make payments. The Group actively engages in payment system development to help ensure that new payment systems are robust.

#### Day to day funding

Day to day funding is managed through limits on wholesale borrowings, secured borrowings and funding mismatches. These ensure that on any day and over any period there is a limited amount of refinancing required. These requirements include replacement of funds as liabilities mature or are borrowed by customers. The Retail and Commercial Bank together with Wealth maintain no reliance on wholesale funding. The Group maintains an active presence in global money markets through Barclays Capital, and monitors and manages the wholesale money market capacity for the Group's name to enable that to happen.

In addition to cash flow management, Treasury also monitors term mismatches between assets and liabilities, as well as the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

#### Liquid assets

The Group maintains a portfolio of highly marketable assets including UK, US and Euro-area government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The Group accesses secured funding markets in these assets on a regular basis. The Group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow.

#### Diversification of liquidity sources

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors, the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on a number of factors including the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

#### Structural liquidity

An important source of structural liquidity is provided by our core retail deposits in the UK, Europe and Africa, mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers – numerically and by depositor type – helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

The Group policy is to fund the balance sheet assets of the Retail and Commercial Bank together with Wealth and Head office functions on a global basis with customer deposits and capital without recourse to the wholesale markets. This provides protection from the liquidity risk of wholesale market funding. The exception to this policy is Absa, which has a large portion of wholesale funding due to the structural nature of the South African financial sector.

#### Scenario analysis and stress testing

Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk.

Treasury develops and monitors a range of stress tests on the Group's projected cash flows. These stress scenarios include Barclays-specific scenarios such as an unexpected rating downgrade and operational problems, and external scenarios such as Emerging Market crises, payment system disruption and macro-economic shocks. The output informs both the liquidity mismatch limits and the Group's contingency funding plan. This is maintained by Treasury and is aligned with the Group and country business resumption plans to encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.

The ability to raise funds is in part dependent on maintaining the Bank's credit rating. The funding impact of a credit downgrade is closely tracked. Whilst the impact of a single downgrade may affect the price at which funding is available, the effect on liquidity is not considered material in Group terms.

# Notes to the accounts

## For the year ended 31st December 2008

### 49 Liquidity risk (continued)

#### Year-end assessment of liquidity

Barclays maintained a strong liquidity profile in 2008, sufficient to absorb the impact of a stressed funding environment. The Group has access to a substantial pool of liquidity both in secured markets and from unsecured depositors including numerous foreign governments and central banks. In addition, our limited reliance on securitisations as a source of funding has meant that the uncertainty in securitisation markets has not impacted our liquidity risk profile.

Whilst funding markets were extremely difficult in the latter half of 2008, and particularly since September 2008, Barclays was able to increase available liquidity, extend the term of unsecured liabilities, and reduce reliance on unsecured funding. Barclays has participated in various government and central bank liquidity facilities, both to aid central banks implementation of monetary policy and support central bank initiatives, where participation has enabled the lengthening of the term of our refinancing. These facilities have improved access to term funding, and helped moderate money market rates.

#### Global Retail and Commercial Banking

The sum of liabilities in Global Retail and Commercial Banking, Barclays Wealth and Head office functions exceeds assets in those businesses. As a result they have no reliance on wholesale funding. The balance sheet is modelled to reflect behavioural experience in both assets and liabilities, and is managed to maintain a positive cash profile.

Throughout 2008 Global Retail and Commercial Banking continued to grow the amount of customer deposits despite competitive pressures.

#### Barclays Capital

Barclays Capital manages liquidity to be self-funding through wholesale sources, managing access to liquidity to ensure that potential cash outflows in a stressed environment are covered.

Funding reliability is maintained by accessing a wide variety of investors and geographies and by building and maintaining strong relationships with these providers of liquidity. The depositors include asset managers, money market funds, corporates, government bodies, central banks and other financial institutions. Deposits are predominantly sourced from Western Europe and North America.

#### Unsecured Funding

Additionally, unsecured funding is managed within specific term limits. The term of unsecured liabilities has been extended, with average life increasing year over year.

Our capital markets debt issuance includes issues of senior and subordinated debt in US registered offerings and medium-term note programmes and European medium-term note programs. Substantially all of our unsecured senior issuance is without covenants that trigger increased cost or accelerate maturity.

#### Secured Funding

Barclays funds securities based on liquidity characteristics. Limits are in place for each security asset class reflecting liquidity in the cash and financing markets for these assets. The vast majority of assets funded in repurchase and stock loan transactions are fundable within central bank facilities (excluding Bank of England Emergency facilities and the Federal Reserve Primary Dealer Credit Facility). These are largely composed of G7 government securities, US mortgage agency debentures and mortgage backed securities, investment grade corporate securities and listed equities. Liquidity risk to secured funding is also mitigated by:

- selecting reliable counterparties
- maintaining term financing and by limiting the amount of overnight funding
- limiting overall secured funding usage

#### Readily available liquidity

Substantial resources are maintained to offset maturing deposits and debt. These readily available assets are sufficient to absorb stress level losses of liquidity from unsecured as well as contingent cash outflows, such as collateral requirements on ratings downgrades. The sources of liquidity and contingent liquidity are from a wide variety of sources, including deposits held with central banks and unencumbered securities.

#### 49 Liquidity risk (continued)

##### Contractual maturity of financial assets and liabilities

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk. In order to more accurately reflect the expected behaviour of the Group's assets and liabilities measurement and modelling of each is constructed. This forms the foundation of the liquidity controls.

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities which are included in the on demand column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have been included in Other Assets and Other Liabilities as the Group is not exposed to liquidity risk arising from them; any request for funds from creditors would be met by simultaneously liquidating or transferring the related investment.

##### At 31st December 2008

The Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
<b>Assets</b>									
Cash and balances at central banks	29,774	245	–	–	–	–	–	–	30,019
Items in course of collection from other banks	1,619	76	–	–	–	–	–	–	1,695
Trading portfolio assets	185,646	–	–	–	–	–	–	–	185,646
Financial assets designated at fair value:									
– held on own account	661	13,861	1,648	5,861	5,420	6,738	4,159	16,194	54,542
Derivative financial instruments:									
– held for trading	981,996	–	–	–	–	–	–	–	981,996
– designated for risk management	–	381	91	542	505	336	419	532	2,806
Loans and advances to banks	4,882	35,690	505	1,892	1,887	1,854	52	945	47,707
Loans and advances to customers	51,155	87,624	12,447	21,976	60,927	44,982	57,409	125,295	461,815
Available for sale financial investments	132	11,539	5,129	13,461	10,266	6,660	9,819	8,010	65,016
Reverse repurchase agreements and cash collateral on securities borrowed	29	107,415	8,947	2,582	10,124	1,019	238	–	130,354
<b>Total financial assets</b>	<b>1,255,894</b>	<b>256,831</b>	<b>28,767</b>	<b>46,314</b>	<b>89,129</b>	<b>61,589</b>	<b>72,096</b>	<b>150,976</b>	<b>1,961,596</b>
<b>Other assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>91,433</b>	<b>91,433</b>
<b>Total assets</b>	<b>1,255,894</b>	<b>256,831</b>	<b>28,767</b>	<b>46,314</b>	<b>89,129</b>	<b>61,589</b>	<b>72,096</b>	<b>242,409</b>	<b>2,053,029</b>
<b>Liabilities</b>									
Deposits from other banks	10,850	94,083	6,040	1,273	1,585	461	433	185	114,910
Items in the course of collection due to other banks	1,633	2	–	–	–	–	–	–	1,635
Customer accounts	195,756	112,582	9,389	10,099	2,451	1,555	1,395	2,306	335,533
Trading portfolio liabilities	59,474	–	–	–	–	–	–	–	59,474
Financial liabilities designated at fair value:									
– held on own account	1,043	16,573	10,630	5,115	12,229	12,041	11,825	7,436	76,892
Derivative financial instruments:									
– held for trading	964,071	–	–	–	–	–	–	–	964,071
– designated for risk management	–	222	141	1,345	1,197	108	781	207	4,001
Debt securities in issue	2,567	79,600	13,908	17,197	23,355	9,856	2,528	4,415	153,426
Repurchase agreements and cash collateral on securities lent	69	176,169	3,409	2,067	245	267	59	–	182,285
Subordinated liabilities	–	260	49	281	1,345	999	10,176	16,732	29,842
<b>Total financial liabilities</b>	<b>1,235,463</b>	<b>479,491</b>	<b>43,566</b>	<b>37,377</b>	<b>42,407</b>	<b>25,287</b>	<b>27,197</b>	<b>31,281</b>	<b>1,922,069</b>
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>87,386</b>	<b>87,386</b>
<b>Total liabilities</b>	<b>1,235,463</b>	<b>479,491</b>	<b>43,566</b>	<b>37,377</b>	<b>42,407</b>	<b>25,287</b>	<b>27,197</b>	<b>118,667</b>	<b>2,009,455</b>
<b>Cumulative liquidity gap</b>	<b>20,431</b>	<b>(202,229)</b>	<b>(217,028)</b>	<b>(208,091)</b>	<b>(161,369)</b>	<b>(125,067)</b>	<b>(80,168)</b>	<b>43,574</b>	<b>43,574</b>



# Notes to the accounts

## For the year ended 31st December 2008

### 49 Liquidity risk (continued)

At 31st December 2008

The Bank	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
<b>Assets</b>									
Cash and balances at central banks	24,784	83	–	–	–	–	–	–	24,867
Items in course of collection from other banks	1,432	34	–	–	–	–	–	–	1,466
Trading portfolio assets	116,522	–	–	–	–	–	–	–	116,522
Financial assets designated at fair value:									
– held on own account	213	2,941	582	3,902	3,044	4,114	3,335	15,967	34,098
Derivative financial instruments:									
– held for trading	1,001,250	–	–	–	–	–	–	–	1,001,250
– designated for risk management	–	221	81	497	460	302	385	489	2,435
Loans and advances to banks	2,695	29,739	435	1,376	1,590	1,022	61	906	37,824
Loans and advances to customers	71,170	216,131	9,237	15,692	52,651	38,584	55,631	94,793	553,889
Available for sale financial investments	45	7,644	3,655	11,252	6,492	5,546	8,482	14,786	57,902
Reverse repurchase agreements and cash collateral on securities borrowed	–	108,911	6,834	2,525	10,125	182	238	–	128,815
<b>Total financial assets</b>	<b>1,218,111</b>	<b>365,704</b>	<b>20,824</b>	<b>35,244</b>	<b>74,362</b>	<b>49,750</b>	<b>68,132</b>	<b>126,941</b>	<b>1,959,068</b>
<b>Other assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28,474</b>	<b>28,474</b>
<b>Total assets</b>	<b>1,218,111</b>	<b>365,704</b>	<b>20,824</b>	<b>35,244</b>	<b>74,362</b>	<b>49,750</b>	<b>68,132</b>	<b>155,415</b>	<b>1,987,542</b>
<b>Liabilities</b>									
Deposits from other banks	22,470	95,051	6,239	1,572	1,494	422	293	10	127,551
Items in the course of collection due to other banks	1,556	2	–	–	–	–	–	–	1,558
Customer accounts	171,313	223,518	9,948	7,887	12,599	10,120	5,470	3,989	444,844
Trading portfolio liabilities	39,428	–	–	–	–	–	–	–	39,428
Financial liabilities designated at fair value:									
– held on own account	1,001	11,997	10,342	5,012	11,462	11,613	11,827	7,404	70,658
Derivative financial instruments:									
– held for trading	985,305	–	–	–	–	–	–	–	985,305
– designated for risk management	–	70	142	1,319	1,190	96	777	198	3,792
Debt securities in issue	2,449	46,310	9,432	13,353	11,838	974	373	170	84,899
Repurchase agreements and cash collateral on securities lent	–	143,548	2,848	2,018	245	267	24	–	148,950
Subordinated liabilities	–	–	31	275	1,229	750	9,868	17,015	29,168
<b>Total financial liabilities</b>	<b>1,223,522</b>	<b>520,496</b>	<b>38,982</b>	<b>31,436</b>	<b>40,057</b>	<b>24,242</b>	<b>28,632</b>	<b>28,786</b>	<b>1,936,153</b>
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>17,510</b>	<b>17,510</b>
<b>Total liabilities</b>	<b>1,223,522</b>	<b>520,496</b>	<b>38,982</b>	<b>31,436</b>	<b>40,057</b>	<b>24,242</b>	<b>28,632</b>	<b>46,296</b>	<b>1,953,663</b>
<b>Cumulative liquidity gap</b>	<b>(5,411)</b>	<b>(160,203)</b>	<b>(178,361)</b>	<b>(174,553)</b>	<b>(140,248)</b>	<b>(114,740)</b>	<b>(75,240)</b>	<b>33,879</b>	<b>33,879</b>

## 49 Liquidity risk (continued)

At 31st December 2007

The Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
<b>Assets</b>									
Cash and balances at central banks	4,785	1,016	–	–	–	–	–	–	5,801
Items in course of collection from other banks	1,651	185	–	–	–	–	–	–	1,836
Trading portfolio assets	193,726	–	–	–	–	–	–	–	193,726
Financial assets designated at fair value:									
– held on own account	1,901	3,202	657	3,029	13,882	7,022	10,637	16,299	56,629
Derivative financial instruments:									
– held for trading	246,950	–	–	–	–	–	–	–	246,950
– designated for risk management	–	76	92	39	260	105	317	249	1,138
Loans and advances to banks	5,882	22,143	446	3,189	1,259	1,035	5,680	486	40,120
Loans and advances to customers	43,469	62,294	12,793	19,307	35,195	30,926	47,297	94,117	345,398
Available for sale financial investments	994	9,009	4,544	2,377	10,831	6,466	5,268	3,767	43,256
Reverse repurchase agreements and cash collateral on securities borrowed	–	158,475	7,369	7,835	4,921	4,348	127	–	183,075
<b>Total financial assets</b>	<b>499,358</b>	<b>256,400</b>	<b>25,901</b>	<b>35,776</b>	<b>66,348</b>	<b>49,902</b>	<b>69,326</b>	<b>114,918</b>	<b>1,117,929</b>
<b>Other assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>109,654</b>	<b>109,654</b>
<b>Total assets</b>	<b>499,358</b>	<b>256,400</b>	<b>25,901</b>	<b>35,776</b>	<b>66,348</b>	<b>49,902</b>	<b>69,326</b>	<b>224,572</b>	<b>1,227,583</b>
<b>Liabilities</b>									
Deposits from other banks	16,288	69,049	1,977	991	651	1,171	231	188	90,546
Items in the course of collection due to other banks	1,781	11	–	–	–	–	–	–	1,792
Customer accounts	175,145	101,667	5,692	4,097	1,576	1,240	1,058	5,374	295,849
Trading portfolio liabilities	65,402	–	–	–	–	–	–	–	65,402
Financial liabilities designated at fair value:									
– held on own account	655	18,022	8,331	6,933	10,830	11,601	12,625	5,492	74,489
Derivative financial instruments:									
– held for trading	247,378	–	–	–	–	–	–	–	247,378
– designated for risk management	–	51	43	82	310	150	215	59	910
Debt securities in issue	698	70,760	11,798	6,945	13,308	7,696	3,123	5,900	120,228
Repurchase agreements and cash collateral on securities lent	–	160,822	2,906	5,547	40	92	22	–	169,429
Subordinated liabilities	–	–	–	–	250	934	7,511	9,455	18,150
<b>Total financial liabilities</b>	<b>507,347</b>	<b>420,382</b>	<b>30,747</b>	<b>24,595</b>	<b>26,965</b>	<b>22,884</b>	<b>24,785</b>	<b>26,468</b>	<b>1,084,173</b>
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>111,589</b>	<b>111,589</b>
<b>Total liabilities</b>	<b>507,347</b>	<b>420,382</b>	<b>30,747</b>	<b>24,595</b>	<b>26,965</b>	<b>22,884</b>	<b>24,785</b>	<b>138,057</b>	<b>1,195,762</b>
<b>Cumulative liquidity gap</b>	<b>(7,989)</b>	<b>(171,971)</b>	<b>(176,817)</b>	<b>(165,636)</b>	<b>(126,253)</b>	<b>(99,235)</b>	<b>(54,694)</b>	<b>31,821</b>	<b>31,821</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 49 Liquidity risk (continued)

At 31st December 2007

The Bank	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
<b>Assets</b>									
Cash and balances at central banks	1,828	91	–	–	–	–	–	–	1,919
Items in course of collection from other banks	1,789	120	–	–	–	–	–	–	1,909
Trading portfolio assets	141,969	–	–	–	–	–	–	–	141,969
Financial assets designated at fair value:									
– held on own account	72	1,480	736	1,668	11,432	2,722	4,080	14,123	36,313
Derivative financial instruments:									
– held for trading	259,897	–	–	–	–	–	–	–	259,897
– designated for risk management	–	39	108	12	102	93	260	243	857
Loans and advances to banks	4,411	18,856	426	1,054	756	486	33	421	26,443
Loans and advances to customers	55,340	164,508	7,659	13,034	25,564	24,762	40,578	67,819	399,264
Available for sale financial investments	19	4,185	1,321	1,192	6,692	4,577	4,786	2,810	25,582
Reverse repurchase agreements and cash collateral on securities borrowed	–	151,521	8,307	8,269	6,009	5,696	2,200	4,552	186,554
<b>Total financial assets</b>	<b>465,325</b>	<b>340,800</b>	<b>18,557</b>	<b>25,229</b>	<b>50,555</b>	<b>38,336</b>	<b>51,937</b>	<b>89,968</b>	<b>1,080,707</b>
<b>Other assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>25,100</b>	<b>25,100</b>
<b>Total assets</b>	<b>465,325</b>	<b>340,800</b>	<b>18,557</b>	<b>25,229</b>	<b>50,555</b>	<b>38,336</b>	<b>51,937</b>	<b>115,068</b>	<b>1,105,807</b>
<b>Liabilities</b>									
Deposits from other banks	16,745	83,829	1,766	749	659	1,200	226	–	105,174
Items in the course of collection due to other banks	1,781	10	–	–	–	–	–	–	1,791
Customer accounts	166,866	171,758	3,846	2,316	5,613	4,223	472	3,967	359,061
Trading portfolio liabilities	44,054	–	–	–	–	–	–	–	44,054
Financial liabilities designated at fair value:									
– held on own account	656	17,032	8,259	6,928	10,820	11,655	13,087	5,468	73,905
Derivative financial instruments:									
– held for trading	256,630	–	–	–	–	–	–	–	256,630
– designated for risk management	–	27	32	53	172	65	179	36	564
Debt securities in issue	631	42,334	6,921	1,937	3,950	352	56	227	56,408
Repurchase agreements and cash collateral on securities lent	–	138,574	3,585	6,015	40	102	4,100	1,233	153,649
Subordinated liabilities	–	–	–	–	251	925	7,276	9,535	17,987
<b>Total financial liabilities</b>	<b>487,363</b>	<b>453,564</b>	<b>24,409</b>	<b>17,998</b>	<b>21,505</b>	<b>18,522</b>	<b>25,396</b>	<b>20,466</b>	<b>1,069,223</b>
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13,667</b>	<b>13,667</b>
<b>Total liabilities</b>	<b>487,363</b>	<b>453,564</b>	<b>24,409</b>	<b>17,998</b>	<b>21,505</b>	<b>18,522</b>	<b>25,396</b>	<b>34,133</b>	<b>1,082,890</b>
<b>Cumulative liquidity gap</b>	<b>(22,038)</b>	<b>(134,802)</b>	<b>(140,654)</b>	<b>(133,423)</b>	<b>(104,373)</b>	<b>(84,559)</b>	<b>(58,018)</b>	<b>22,917</b>	<b>22,917</b>

#### 49 Liquidity risk (continued)

##### Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Group manages the inherent liquidity risk based on discounted expected cash inflows. Derivative financial instruments held for trading and trading portfolio liabilities are included in the on demand column at their fair value.

At 31st December 2008

The Group	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Deposits from other banks	10,850	101,537	2,224	671	115,282
Items in the course of collection due to other banks	1,633	2	–	–	1,635
Customer accounts	195,756	132,927	5,249	5,807	339,739
Trading portfolio liabilities	59,474	–	–	–	59,474
Financial liabilities designated at fair value:					
– held on own account	1,043	33,860	28,300	30,427	93,630
Derivative financial instruments:					
– held for trading	964,071	–	–	–	964,071
– designated for risk management	–	1,809	1,671	1,206	4,686
Debt securities in issue	2,567	112,816	34,510	11,853	161,746
Repurchase agreements and cash collateral on securities lent	69	181,895	547	24	182,535
Subordinated liabilities	–	1,273	10,166	22,593	34,032
Other financial liabilities	–	4,573	1,572	–	6,145
<b>Total financial liabilities</b>	<b>1,235,463</b>	<b>570,692</b>	<b>84,239</b>	<b>72,581</b>	<b>1,962,975</b>
<b>Off balance sheet items</b>					
Loan commitments	222,801	30,502	5,799	917	260,019
Other commitments	493	318	340	–	1,151
<b>Total off balance sheet items</b>	<b>223,294</b>	<b>30,820</b>	<b>6,139</b>	<b>917</b>	<b>261,170</b>
<b>Total financial liabilities and off balance sheet items</b>	<b>1,458,757</b>	<b>601,512</b>	<b>90,378</b>	<b>73,498</b>	<b>2,224,145</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 49 Liquidity risk (continued)

#### At 31st December 2008

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
<b>The Bank</b>					
Deposits from other banks	22,470	103,055	2,035	308	127,868
Items in the course of collection due to other banks	1,556	2	–	–	1,558
Customer accounts	171,313	241,402	24,747	11,175	448,637
Trading portfolio liabilities	39,428	–	–	–	39,428
Financial liabilities designated at fair value:					
– held on own account	1,001	28,784	27,155	30,391	87,331
Derivative financial instruments:					
– held for trading	985,305	–	–	–	985,305
– designated for risk management	–	2,267	1,307	927	4,501
Debt securities in issue	2,449	70,172	13,578	692	86,891
Repurchase agreements and cash collateral on securities lent	–	148,584	578	25	149,187
Subordinated liabilities	–	938	9,707	22,547	33,192
Other financial liabilities	–	8,362	2,009	–	10,371
<b>Total financial liabilities</b>	<b>1,223,522</b>	<b>603,566</b>	<b>81,116</b>	<b>66,065</b>	<b>1,974,269</b>
<b>Off balance sheet items</b>					
Loan commitments	157,549	7,365	2,493	228	167,635
Other commitments	367	183	58	–	608
<b>Total off balance sheet items</b>	<b>157,916</b>	<b>7,548</b>	<b>2,551</b>	<b>228</b>	<b>168,243</b>
<b>Total financial liabilities and off balance sheet items</b>	<b>1,381,438</b>	<b>611,114</b>	<b>83,667</b>	<b>66,293</b>	<b>2,142,512</b>

#### At 31st December 2007

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
<b>The Group</b>					
Deposits from other banks	16,288	72,533	2,099	275	91,195
Items in the course of collection due to other banks	1,781	11	–	–	1,792
Customer accounts	175,145	112,863	3,739	10,280	302,027
Trading portfolio liabilities	65,402	–	–	–	65,402
Financial liabilities designated at fair value:					
– held on own account	655	34,008	25,870	31,868	92,401
Derivative financial instruments:					
– held for trading	247,378	–	–	–	247,378
– designated for risk management	–	226	479	186	891
Debt securities in issue	698	91,201	22,926	15,020	129,845
Repurchase agreements and cash collateral on securities lent	–	169,877	146	23	170,046
Subordinated liabilities	–	463	4,964	17,875	23,302
Other financial liabilities	–	2,983	1,456	–	4,439
<b>Total financial liabilities</b>	<b>507,347</b>	<b>484,165</b>	<b>61,679</b>	<b>75,527</b>	<b>1,128,718</b>
<b>Off balance sheet items</b>					
Loan commitments	183,784	3,111	4,513	963	192,371
Other commitments	453	200	145	12	810
<b>Total off balance sheet items</b>	<b>184,237</b>	<b>3,311</b>	<b>4,658</b>	<b>975</b>	<b>193,181</b>
<b>Total financial liabilities and off balance sheet items</b>	<b>691,584</b>	<b>487,476</b>	<b>66,337</b>	<b>76,502</b>	<b>1,321,899</b>

## 49 Liquidity risk (continued)

### At 31st December 2007

	On demand £m	Within one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
<b>The Bank</b>					
Deposits from other banks	16,745	86,621	2,097	215	105,678
Items in the course of collection to other banks	1,781	10	–	–	1,791
Customer accounts	166,866	177,777	12,160	8,469	365,272
Trading portfolio liabilities	44,054	–	–	–	44,054
Financial assets designated at fair value:					
– held on own account	656	32,996	25,788	32,530	91,970
Derivative financial instruments:					
– held for trading	256,630	–	–	–	256,630
– designated for risk management	–	112	237	291	640
Debt securities in issue	631	51,865	4,611	180	57,287
Repurchase agreement and cash collateral on securities lent	–	148,974	1,095	6,574	156,643
Subordinated liabilities	–	891	4,340	17,576	22,807
Other financial liabilities	–	5,907	1,608	–	7,515
<b>Total financial liabilities</b>	<b>487,363</b>	<b>505,153</b>	<b>51,936</b>	<b>65,835</b>	<b>1,110,287</b>
<b>Off balance sheet items</b>					
Loan commitments	183,498	1,235	1,574	207	186,514
Other commitments	452	44	138	11	645
<b>Total off balance sheet items</b>	<b>183,950</b>	<b>1,279</b>	<b>1,712</b>	<b>218</b>	<b>187,159</b>
<b>Total financial liabilities and off balance sheet items</b>	<b>671,313</b>	<b>506,432</b>	<b>53,648</b>	<b>66,053</b>	<b>1,297,446</b>

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as the Group is not exposed to liquidity risk arising from them. Any request for funds from the investors would be met simultaneously from the linked assets.

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cashflows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

The principal due under perpetual subordinated liability instruments has been included in the over five years category. Further interest payments have not been included on this amount, which according to their strict contractual terms, could carry on indefinitely.

# Notes to the accounts

## For the year ended 31st December 2008

### 50 Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable willing parties.

#### Comparison of carrying amounts and fair values

The following table summarises the carrying amounts of financial assets and liabilities presented on the Group and the Bank's balance sheets, and their fair values differentiating between financial assets and liabilities subsequently measured at fair value and those subsequently measured at amortised cost:

		2008		2007	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
The Group	Notes				
<b>Financial assets:</b>					
Cash and balances at central banks	a	30,019	30,019	5,801	5,801
Items in the course of collection from other banks	a	1,695	1,695	1,836	1,836
Trading portfolio assets:					
– Treasury and other eligible bills	b	4,544	4,544	2,094	2,094
– Debt securities	b	148,686	148,686	152,778	152,778
– Equity securities	b	30,544	30,544	36,342	36,342
– Traded Loans	b	1,070	1,070	1,780	1,780
– Commodities	b	802	802	732	732
Financial assets designated at fair value:					
held in respect of linked liabilities under investment contracts	b	66,657	66,657	90,851	90,851
held under own account:					
– Equity securities	b	6,496	6,496	5,376	5,376
– Loans and advances	b	30,187	30,187	23,491	23,491
– Debt securities	b	8,628	8,628	24,217	24,217
– Other financial assets designated at fair value	b	9,231	9,231	3,545	3,545
Derivative financial instruments	b	984,802	984,802	248,088	248,088
Loans and advances to banks	c	47,707	47,594	40,120	40,106
Loans and advances to customers:					
– Residential mortgage loans	c	135,077	133,605	106,619	106,615
– Credit card receivables	c	22,304	22,312	14,289	14,289
– Other personal lending	c	32,038	31,264	29,857	29,857
– Wholesale and corporate loans and advances	c	259,699	247,798	183,556	182,036
– Finance lease receivables	c	12,697	12,697	11,077	11,066
Available for sale financial instruments:					
– Treasury and other eligible bills	b	4,003	4,003	2,723	2,723
– Debt securities	b	58,831	58,831	38,673	38,673
– Equity securities	b	2,182	2,182	1,860	1,860
Reverse repurchase agreements and cash collateral on securities borrowed	c	130,354	129,296	183,075	183,075
<b>Financial liabilities:</b>					
Deposits from banks	d	114,910	114,912	90,546	90,508
Items in the course of collection due to other banks	a	1,635	1,635	1,792	1,792
Customer accounts:					
– Current and demand accounts	d	82,515	82,515	80,006	80,006
– Savings accounts	d	76,008	76,008	74,599	74,599
– Other time deposits	d	177,010	176,944	141,244	142,779
Trading portfolio liabilities:					
– Treasury and other eligible bills	b	79	79	486	486
– Debt securities	b	44,309	44,309	50,506	50,506
– Equity securities	b	14,919	14,919	13,702	13,702
– Commodities	b	167	167	708	708
Financial liabilities designated at fair value:					
– Held on own account	b	76,892	76,892	74,489	74,489
– Liabilities to customers under investment contracts	b	69,183	69,183	92,639	92,639
Derivative financial instruments	b	968,072	968,072	248,288	248,288
Debt securities in issue	d	153,426	152,595	120,228	120,176
Repurchase agreements and cash collateral on securities lent	d	182,285	182,285	169,429	169,429
Subordinated liabilities	d	29,842	22,944	18,150	17,410

## 50 Fair value of financial instruments (continued)

		2008		2007	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>The Bank</b>					
<b>Financial assets:</b>					
Cash and balances at central banks	a	24,867	24,867	1,919	1,919
Items in the course of collection from other banks	a	1,466	1,466	1,909	1,909
Trading portfolio assets:					
– Treasury and other eligible bills	b	425	425	1,765	1,765
– Debt securities	b	102,923	102,923	119,255	119,255
– Equity securities	b	11,704	11,704	18,660	18,660
– Traded Loans	b	1,047	1,047	1,775	1,775
– Commodities	b	423	423	514	514
Financial assets designated at fair value:					
held in respect of linked liabilities under investment contracts	b	–	–	–	–
held under own account:					
– Equity securities	b	12	12	43	43
– Loans and advances	b	24,596	24,596	18,806	18,806
– Debt securities	b	7,801	7,801	17,388	17,388
– Other financial assets designated at fair value	b	1,689	1,689	76	76
Derivative financial instruments	b	1,003,685	1,003,685	260,754	260,754
Loans and advances to banks	c	37,824	37,711	26,443	26,443
Loans and advances to customers:					
– Residential mortgage loans	c	107,663	106,165	83,665	83,665
– Credit card receivables	c	11,511	11,519	10,140	10,140
– Other personal lending	c	18,289	18,003	13,676	13,676
– Wholesale and corporate loans and advances	c	416,082	404,235	291,631	290,193
– Finance lease receivables	c	344	344	152	152
Available for sale financial instruments:					
– Treasury and other eligible bills	b	380	380	335	335
– Debt securities	b	57,061	57,061	24,594	24,594
– Equity securities	b	461	461	653	653
Reverse repurchase agreements and cash collateral on securities borrowed	c	128,815	127,757	186,554	186,554
<b>Financial liabilities:</b>					
Deposits from banks	d	127,551	127,553	105,174	105,162
Items in the course of collection due to other banks	a	1,558	1,558	1,791	1,791
Customer accounts	d	444,844	444,792	359,061	358,997
Trading portfolio liabilities:					
– Treasury and other eligible bills	b	39	39	121	121
– Debt securities	b	35,954	35,954	41,150	41,150
– Equity securities	b	3,268	3,268	2,075	2,075
– Commodities	b	167	167	708	708
Financial liabilities designated at fair value – held on own account	b	70,658	70,658	73,905	73,905
Derivative financial instruments	b	989,097	989,097	257,194	257,194
Debt securities in issue	d	84,899	85,047	56,408	56,378
Repurchase agreements and cash collateral on securities lent	d	148,950	148,950	153,649	153,649
Subordinated liabilities	d	29,168	22,246	17,987	17,223



# Notes to the accounts

## For the year ended 31st December 2008

### 50 Fair value of financial instruments (continued)

#### Notes

- a Fair value approximates carrying value due to the short-term nature of these financial assets and liabilities.
- b The carrying value of financial instruments subsequently measured at fair value (including those held for trading, designated at fair value, derivatives and available for sale) is determined in accordance with accounting policy 7 on page 24 and further description and analysis of these fair values are set out below.
- c The carrying value of financial assets subsequently measured at amortised cost (including loans and advances, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the accounting policy 7 on page 24. In many cases the fair value disclosed approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently. In other cases, fair value is determined using discounted cash flows, applying either market derived interest rates or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. Additionally, fair value can be determined by applying an average of available regional and industry segmental credit spreads to the loan portfolio, taking the contractual maturity of the loan facilities into consideration.
- d The carrying value of financial liabilities subsequently measured at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue, subordinated liabilities) is determined in accordance with the accounting policy 7 on page 24. In many cases, the fair value disclosed approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently such as customer accounts and other deposits and short term debt securities. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using a valuation model. Fair values for dated and undated convertible and non-convertible loan capital are based on quoted market rates for the issue concerned or similar issues with similar terms and conditions.

#### Valuation methodology

The table below shows the Group's financial assets and liabilities that are recognised and measured at fair value analysed by valuation technique. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out on the next page.

At 31st December 2008					
	Valuations based on observable inputs £m	Valuations based on unobservable inputs			
		Vanilla products £m	Exotic products £m	Total £m	Total £m
Trading portfolio assets	174,177	11,469	–	11,469	185,646
Financial assets designated at fair value:					
– held on own account	37,618	16,559	365	16,924	54,542
– held in respect of linked liabilities to customers under investment contracts	66,657	–	–	–	66,657
Derivative financial assets	970,028	12,436	2,338	14,774	984,802
Available for sale assets	63,189	1,827	–	1,827	65,016
<b>Total assets</b>	<b>1,311,669</b>	<b>42,291</b>	<b>2,703</b>	<b>44,994</b>	<b>1,356,663</b>
Trading portfolio liabilities	(59,436)	(38)	–	(38)	(59,474)
Financial liabilities designated at fair value	(71,044)	(290)	(5,558)	(5,848)	(76,892)
Liabilities to customers under investment contracts	(69,183)	–	–	–	(69,183)
Derivative financial liabilities	(959,518)	(6,151)	(2,403)	(8,554)	(968,072)
<b>Total liabilities</b>	<b>(1,159,181)</b>	<b>(6,479)</b>	<b>(7,961)</b>	<b>(14,440)</b>	<b>(1,173,621)</b>

At 31st December 2007					
	Valuations based on observable inputs £m	Valuations based on unobservable inputs			
		Vanilla products £m	Exotic products £m	Total £m	Total £m
Trading portfolio assets	189,269	4,457	–	4,457	193,726
Financial assets designated at fair value:					
– held on own account	39,810	16,819	–	16,819	56,629
– held in respect of linked liabilities to customers under investment contracts	90,851	–	–	–	90,851
Derivative financial assets	245,381	1,118	1,589	2,707	248,088
Available for sale assets	42,446	810	–	810	43,256
<b>Total assets</b>	<b>607,757</b>	<b>23,204</b>	<b>1,589</b>	<b>24,793</b>	<b>632,550</b>
Trading portfolio liabilities	(65,360)	(42)	–	(42)	(65,402)
Financial liabilities designated at fair value	(68,317)	(951)	(5,221)	(6,172)	(74,489)
Liabilities to customers under investment contracts	(92,639)	–	–	–	(92,639)
Derivative financial liabilities	(243,906)	(1,178)	(3,204)	(4,382)	(248,288)
<b>Total liabilities</b>	<b>(470,222)</b>	<b>(2,171)</b>	<b>(8,425)</b>	<b>(10,596)</b>	<b>(480,818)</b>

Of the total Group assets of £1,356,663m measured at fair value, £44,994m (2007: £24,793m) were valued using models with unobservable inputs. While the derivative assets associated with our Monoline exposure accounted for a significant portion of the increase in assets valued using unobservable inputs, further increases arose due to weakness in Sterling, as well as increased illiquidity in the market.

## 50 Fair value of financial instruments (continued)

The nature of the valuation techniques set out in the table above are summarised as follows:

### Valuations based on observable inputs

Valuations based on observable inputs include

- Financial instruments for which their valuations are determined by reference to 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;
- Financial instruments valued using recent arm's length market transactions or with reference to the current fair value of similar instruments;
- Linear financial instruments, such as swaps and forwards which are valued using market standard pricing techniques;
- Options that are commonly traded in markets whereby all the inputs to the market-standard pricing models are deemed observable.

### Valuations based on unobservable inputs

Valuations based on unobservable inputs include:

#### (a) Vanilla products

Products valued using simple models, such as discounted cash flow or Black Scholes models, where some of the inputs are not observable. This would include, for example, commercial loans, commercial mortgage backed securities, selected mortgage products, Alt As and subprime loans, as well as long-dated vanilla options with tenors different to those commonly traded in the markets and hence unobservable volatilities.

#### (b) Exotic products

Exotic products are over-the-counter products that are relatively bespoke, not commonly traded in the markets, and are valued using sophisticated mathematical models where some of the inputs are not observable.

In determining the value of vanilla and exotic products the following are the principal inputs that can require judgement:

##### (i) Volatility

Volatility is a critical input to all option pricing models, across all asset classes. In most cases volatility is observable from the vanilla options that are traded across the various asset classes but, on occasion, volatility is unobservable, for example, for a long maturity option.

##### (ii) Correlation

Across asset classes, correlation is another important input to some pricing models, for example for products whose value depends on two equity indices. In some developed markets there are products traded from which correlation can be implied, for example spread products in commodities.

##### (iii) Model input parameters

Some exotic models have input parameters that define the models, for example interest rate models tend to have parameters that are needed to capture the rich dynamics of the yield curve. These model parameters are typically not directly observable but may be inferred from observable inputs.

##### (iv) Spreads to discount rates

For certain product types, particularly credit related such as asset backed financial instruments, the discount rate is set at a spread to the standard discount (LIBOR) rates. In these cases, in addition to standard discount rates, the spread is a significant input to the valuation. For some assets this spread data can be unobservable.

##### (v) Default rates and recovery rates

In certain credit products valued using pricing models, default rates and recovery rates may be necessary inputs. Some default rates and recovery rates are deemed observable but for others which are less frequently traded in the markets they may not be.

##### (vi) Prepayment rates

For products in the securitisation businesses, for example mortgage backed securities, prepayment rates are key inputs. Some of the drivers of prepayment are understood (such as the nature of assets/loans, e.g. quality of mortgage pool and macroeconomic factors) however, future prepayment rates are considered unobservable.

The following summary sets out the principal instruments whose valuation may involve judgmental inputs.

### 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.

### Mortgage whole loans

Wherever possible, the fair value of mortgage whole loans is 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 valued using observable information to the greatest extent possible. 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 and 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.

# Notes to the accounts

## For the year ended 31st December 2008

### 50 Fair value of financial instruments (continued)

#### 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.

#### OTC 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, default rates, 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.

## 50 Fair value of financial instruments (continued)

### Sensitivity analysis of valuations using unobservable inputs

As part of our risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

#### At 31st December 2008

	Significant unobservable parameters <sup>a</sup>	Potential effect recorded in profit or loss Favourable (Unfavourable) £m		Potential effect recorded in equity Favourable (Unfavourable) £m	
Asset backed securities and loans and derivatives with asset backed underlyings	iii, iv, v, vi	1,470	(1,896)	46	(54)
Private equity <sup>b</sup>	iii, iv	209	(208)	64	(142)
Derivative assets and liabilities and financial liabilities designated at fair value:					
– Derivative exposure to Monoline insurers	iii, iv, v, vi	21	(329)	–	–
– Funds derivatives and structured notes	iii	226	(123)	–	–
– Other structured derivatives and notes	i, ii, iii	304	(196)	–	–
Other	i, ii, iii, iv, v, vi	55	(43)	–	–
<b>Total</b>		<b>2,285</b>	<b>(2,795)</b>	<b>110</b>	<b>(196)</b>

#### At 31st December 2007

	Significant unobservable parameters <sup>a</sup>	Potential effect recorded in profit or loss Favourable (Unfavourable) £m		Potential effect recorded in equity Favourable (Unfavourable) £m	
Asset backed securities and loans and derivatives with asset backed underlyings	iii, iv, v, vi	868	(868)	5	(5)
Private equity	iii, iv	75	(75)	36	(36)
Derivative assets and liabilities and financial liabilities designated at fair value:					
– Fund derivatives and structured notes	iii	441	(147)	–	–
– Other structured derivatives and notes	i, ii, iii	57	(56)	–	–
Other	i, ii, iii, iv, v, vi	3	(1)	–	–
<b>Total</b>		<b>1,444</b>	<b>(1,147)</b>	<b>41</b>	<b>(41)</b>

The effect of stressing the significant unobservable assumptions to a range of reasonably possible alternatives would be to increase the fair values by up to £2.4bn (2007: £1.5bn) or to decrease the fair values by up to £3.0bn (2007: £1.2bn) with substantially all the potential effect being recorded in profit or loss rather than equity.

#### Asset backed securities and loans, and derivatives with asset backed underlyings

Asset backed securities, loans and related derivatives contribute most to the sensitivity analysis as at 31st December 2008. The stress effect increased in this area in 2008 due to continued market dislocation and increased levels of unobservability. The stresses having the most significant impact on the analysis are: for commercial mortgage backed securities and loans, changing the spreads to discount rates to close to originated levels (favourable stress) and increasing spreads to between 2-6% (unfavourable); for residential mortgage backed securities and loans, changing the spreads to discount rates by +/-10%; and for collateralised debt obligations that reference asset backed securities and loans, primarily by changing the spreads to discount rates by +/-20%.

#### Private equity

The sensitivity amounts are calculated by stressing the key valuation inputs to each individual valuation – generally either price:earnings ratios or EBITDA analysis. The stresses are then determined by comparing these metrics with a range of similar companies.

#### Derivative exposure to Monoline insurers

The favourable stress is calculated by reference to counterparty quotes for second loss protection on the appropriate reference obligations. The unfavourable stress is calculated by applying a default scenario to the monolines that are rated BBB or below.

#### Fund derivatives and structured notes

The valuation of these transactions takes into account the risk that the underlying fund-linked asset value will decrease too quickly to be able to re-hedge with risk-free instruments ('gap risk'). The sensitivity amounts are determined by applying stresses to market quotes for hedging the relevant gap risk. The unfavourable stress is based on a shift in the gap risk price of 34bp, the favourable stress applies to a pricing level that assumes no gap event will occur.

#### Other structured derivatives and notes

The sensitivity amounts are calculated principally by adjusting the relevant correlation sensitivity used in the valuation model by a range based on structured derivative data available in consensus pricing services. The range applied to correlation sensitivity is an adverse or beneficial move of 15bp applied to the correlation sensitivity.

#### Notes

<sup>a</sup> (i)-(vi) refer to valuation inputs listed on page 145.

<sup>b</sup> Available for sale assets (Private Equity) and assets designated at fair value (Principal Investments).

# Notes to the accounts

## For the year ended 31st December 2008

### 50 Fair value of financial instruments (continued)

#### Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, was as follows:

At 31st December	The Group		The Bank	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1st January	154	534	130	458
New transactions	77	134	69	91
Amounts recognised in profit or loss during the year	(103)	(514)	(86)	(419)
At 31st December	128	154	113	130

The net asset fair value position of the related financial instruments increased by £16,357m for the year ended 31st December 2008 (31st December 2007: £2,842m). In many cases these changes in fair values were offset by changes in fair values of other financial instruments, which were priced in active markets or valued by using a valuation technique which is supported by observable market prices or rates, or by transactions which have been realised.

### 51 Reclassification of financial assets held for trading

On 16th December the Group reclassified certain financial assets originally classified as held for trading that were no longer held for the purpose of selling or repurchasing in the near term out of fair value through profit or loss to loans and receivables. In making this reclassification, the Group identified those trading assets, comprising portfolios of bank-issued fixed rate notes and mortgage and other asset backed securities, for which it had a clear change of intent to hold for the foreseeable future or until maturity rather than to trade in the short term. At the time of the transfer, the Group identified rare circumstances permitting such reclassification, being severe illiquidity in the relevant market.

The following table shows carrying values and fair values of the assets reclassified at 16th December 2008.

	16th December 2008	31st December 2008	
	Carrying value £m	Carrying value £m	Fair value £m
<b>The Group and the Bank</b>			
Trading assets reclassified to loans and receivables	4,046	3,986	3,984
<b>Total financial assets reclassified to loans and receivables</b>	<b>4,046</b>	<b>3,986</b>	<b>3,984</b>

As at the date of reclassification, the effective interest rates on reclassified trading assets ranged from 0.18% to 9.29% with expected recoverable cash flows of £7.4bn.

If the reclassifications had not been made, the Group's income statement for 2008 would have included unrealised fair value losses on the reclassified trading assets of £1.5m.

After reclassification, the reclassified financial assets contributed the following amounts to the 2008 income before income taxes.

	2008 £m
<b>The Group and the Bank</b>	
Net interest income	4
Provision for credit losses	—
<b>Income before income taxes on reclassified trading assets</b>	<b>4</b>

Prior to reclassification in 2008, £144m of unrealised fair value losses on the reclassified trading assets was recognised in the consolidated income statement for 2008 (2007: £218m loss).

## 52 Capital Management

Barclays operates a centralised capital management model, considering both regulatory and economic capital. The capital management strategy is to continue to maximise shareholder value through optimising both the level and mix of capital resources. Decisions on the allocation of capital resources are conducted as part of the strategic planning review.

The Group's capital management objectives are to:

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the FSA and the US Federal Reserve Bank's requirements that a financial holding company be well capitalised.
- Maintain sufficient capital resources to support the Group's risk appetite and economic capital requirements.
- Support the Group's credit rating.
- Ensure locally regulated subsidiaries can meet their minimum capital requirements.
- Allocate capital to businesses to support the Group's strategic objectives, including optimising returns on economic and regulatory capital.

### External Regulatory Capital Requirements

The Group is subject to minimum capital requirements imposed by the Financial Services Authority (FSA), following guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented in the UK via European Union Directives.

Under Basel II, effective from 1st January 2008, the Group has approval by the FSA to use the advanced approaches to credit and operational risk management. Pillar 1 capital requirements are generated using the Group's risk models.

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

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Japanese FSA and the Monetary Authority of Singapore); Africa, where the Group's operations are headquartered in Johannesburg, South Africa (The South African Reserve Bank and the Financial Services Board (FSB)) and the United States of America (the Board of Governors of the Federal Reserve System (FRB) and the Securities and Exchange Commission).

The Group manages its capital resources to ensure that those Group entities that are subject to local capital adequacy regulation in individual countries 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.

### Regulatory Capital

The table below provides details of the regulatory capital resources managed by the Group.

	Basel II 2008 £m	Basel I 2007 £m
<b>Total qualifying Tier 1 capital</b>	<b>37,101</b>	26,534
<b>Total qualifying Tier 2 capital</b>	<b>22,356</b>	17,123
<b>Total deductions</b>	<b>(964)</b>	(1,889)
<b>Total net capital resources</b>	<b>58,493</b>	41,768

# Notes to the accounts

## For the year ended 31st December 2008

### 53 Segmental reporting

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 Retail Banking
- Barclays Commercial Bank
- Barclaycard
- GRCB – Western Europe
- GRCB – Emerging Markets
- GRCB – Absa

#### Investment Banking and Investment Management

- Barclays Capital
- Barclays Global Investors
- Barclays Wealth

#### Head Office Functions and Other Operations

##### 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 £1 m. 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 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 and South Africa.

In the UK, Barclaycard comprises Barclaycard UK Cards, Barclaycard Partnerships, Barclays Partner Finance and FirstPlus.

Outside the UK, Barclaycard provides credit cards in the United States, Germany, South Africa (through management of the Absa credit card portfolio) and in the Scandinavian region, where 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 GRCB – Western Europe and GRCB – Emerging Markets, to leverage their distribution capabilities.

##### Global Retail and Commercial Banking – Western Europe

GRCB – Western Europe encompasses Barclays Global Retail and Commercial Banking as well as Barclaycard operations in Spain, Italy, Portugal and France. GRCB – Western Europe serves customers through a variety of distribution channels. GRCB – Western Europe provides a variety of products including retail mortgages, current and deposit accounts, commercial lending, unsecured lending, credit cards, investments, and insurance serving the needs of Barclays retail, mass affluent, and corporate customers.

##### Global Retail and Commercial Banking – Emerging Markets

GRCB – Emerging Markets encompasses Barclays Global Retail and Commercial Banking, as well as Barclaycard operations, in 14 countries organised in six geographic areas: India and Indian Ocean (India, Mauritius and Seychelles); Middle East and North Africa (UAE and Egypt); East and West Africa (Ghana, Tanzania, Uganda and Kenya); Southern Africa (Botswana, Zambia and Zimbabwe); Russia; and Pakistan (from 23rd July 2008). GRCB – Emerging Markets serves its customers through a variety of distribution channels. GRCB – Emerging Markets provides a variety of traditional retail and commercial products including retail mortgages, current and deposit accounts, commercial lending, unsecured lending, credit cards, treasury and investments. In addition to this, it provides specialist services such as Sharia compliant products and mobile banking.

##### Global Retail and Commercial Banking – Absa

GRCB – Absa represents Barclays consolidation of Absa, excluding Absa Capital and Absa Card which is included as part of Barclays Capital and Barclaycard respectively. Absa Group Limited is a South African financial services organisation serving personal, commercial and corporate customers predominantly in South Africa. GRCB – 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.

##### Barclays Capital

Barclays Capital is the investment banking division of Barclays that provides large corporate, institutional and government clients with solutions to their financing and risk management needs.

### 53 Segmental reporting (continued)

Barclays Capital services a wide variety of client needs, covering strategic advisory and M&A; equity and fixed income capital raising and corporate lending; and risk management across foreign exchange, interest rates, equities and commodities.

Activities are organised into three principal areas: Global Markets, which includes commodities, credit products, equities, foreign exchange, interest rate products; Investment Banking, which includes corporate advisory, Mergers and Acquisitions, equity and fixed-income capital raising and corporate lending; and Private Equity and Principal Investments. Barclays Capital includes Absa Capital, the investment banking business of Absa. Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

#### **Barclays Global Investors**

BGI is an asset manager and a 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. 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 managed 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 comprises head office and central support functions, businesses in transition and inter-segment 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.



# Notes to the accounts

## For the year ended 31st December 2008

### 53 Segmental reporting (continued)

As at 31st December 2008

	UK Retail Banking £m	Barclays Commer- cial Bank £m	Barclaycard £m	GRCB – Western Europe £m	GRCB – Emerging Markets £m	GRCB – Absa £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Head Office Functions and Other Operations £m	Total £m
Interest income from external customers	2,816	1,589	1,677	808	644	1,223	2,026	(52)	496	188	11,415
Other income from external customers	1,702	1,068	1,492	625	375	946	2,989	1,890	914	(347)	11,654
<b>Income from external customers, net of insurance claims</b>	<b>4,518</b>	<b>2,657</b>	<b>3,169</b>	<b>1,433</b>	<b>1,019</b>	<b>2,169</b>	<b>5,015</b>	<b>1,838</b>	<b>1,410</b>	<b>(159)</b>	<b>23,069</b>
Inter-segment income	(36)	88	50	(3)	–	29	216	6	(86)	(264)	–
<b>Total income net of insurance claims</b>	<b>4,482</b>	<b>2,745</b>	<b>3,219</b>	<b>1,430</b>	<b>1,019</b>	<b>2,198</b>	<b>5,231</b>	<b>1,844</b>	<b>1,324</b>	<b>(423)</b>	<b>23,069</b>
<b>Impairment charges and other credit provisions</b>	<b>(602)</b>	<b>(414)</b>	<b>(1,097)</b>	<b>(296)</b>	<b>(166)</b>	<b>(347)</b>	<b>(2,423)</b>	<b>–</b>	<b>(44)</b>	<b>(30)</b>	<b>(5,419)</b>
Segment expenses – external	(2,138)	(934)	(1,405)	(1,108)	(856)	(1,576)	(3,789)	(1,231)	(809)	(516)	(14,362)
Inter-segment expenses	(381)	(129)	(17)	179	137	271	15	(18)	(126)	69	–
<b>Total expenses</b>	<b>(2,519)</b>	<b>(1,063)</b>	<b>(1,422)</b>	<b>(929)</b>	<b>(719)</b>	<b>(1,305)</b>	<b>(3,774)</b>	<b>(1,249)</b>	<b>(935)</b>	<b>(447)</b>	<b>(14,362)</b>
<b>Share of post-tax results of associates and joint ventures</b>	<b>8</b>	<b>(2)</b>	<b>(3)</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>14</b>
<b>Profit on disposal of subsidiaries, associates and joint ventures</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>326</b>	<b>–</b>	<b>327</b>
<b>Gain on acquisition</b>	<b>–</b>	<b>–</b>	<b>92</b>	<b>52</b>	<b>–</b>	<b>–</b>	<b>2,262</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,406</b>
<b>Business segment profit before tax</b>	<b>1,369</b>	<b>1,266</b>	<b>789</b>	<b>257</b>	<b>134</b>	<b>552</b>	<b>1,302</b>	<b>595</b>	<b>671</b>	<b>(900)</b>	<b>6,035</b>
<b>Additional information</b>											
Depreciation and amortisation	111	69	114	69	58	117	272	40	40	31	921
Impairment loss – intangible assets	–	–	–	–	–	–	–	–	(3)	–	(3)
Impairment of goodwill	–	–	37	–	–	–	74	–	–	–	111
Investments in associates and joint ventures	1	(3)	(13)	–	–	84	150	–	–	122	341
<b>Total assets</b>	<b>101,422</b>	<b>84,038</b>	<b>30,930</b>	<b>64,734</b>	<b>14,657</b>	<b>40,397</b>	<b>1,629,126</b>	<b>71,342</b>	<b>13,280</b>	<b>3,103</b>	<b>2,053,029</b>
<b>Total liabilities</b>	<b>104,640</b>	<b>64,997</b>	<b>3,004</b>	<b>37,250</b>	<b>10,517</b>	<b>20,720</b>	<b>1,603,093</b>	<b>68,372</b>	<b>45,846</b>	<b>51,016</b>	<b>2,009,455</b>

### 53 Segmental reporting (continued)

As at 31st December 2007

	UK Retail Banking £m	Barclays Commer- cial Bank £m	Barclaycard £m	GRCB – Western Europe £m	GRCB – Emerging Markets £m	GRCB – Absa £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Head Office Functions and Other Operations £m	Total £m
Interest income from external customers	2,725	1,624	1,303	472	344	1,140	1,536	(2)	453	6	9,601
Other income from external customers	1,652	922	1,086	474	189	832	5,398	1,917	890	70	13,430
<b>Income from external customers, net of insurance claims</b>	<b>4,377</b>	<b>2,546</b>	<b>2,389</b>	<b>946</b>	<b>533</b>	<b>1,972</b>	<b>6,934</b>	<b>1,915</b>	<b>1,343</b>	<b>76</b>	<b>23,031</b>
Inter-segment income	(80)	18	141	(9)	–	27	185	11	(56)	(237)	–
<b>Total income net of insurance claims</b>	<b>4,297</b>	<b>2,564</b>	<b>2,530</b>	<b>937</b>	<b>533</b>	<b>1,999</b>	<b>7,119</b>	<b>1,926</b>	<b>1,287</b>	<b>(161)</b>	<b>23,031</b>
<b>Impairment charges and other credit provisions</b>	<b>(559)</b>	<b>(292)</b>	<b>(827)</b>	<b>(76)</b>	<b>(39)</b>	<b>(146)</b>	<b>(846)</b>	<b>–</b>	<b>(7)</b>	<b>(3)</b>	<b>(2,795)</b>
Segment expenses											
– external	(2,154)	(785)	(1,079)	(859)	(553)	(1,518)	(3,989)	(1,180)	(829)	(253)	(13,199)
Inter-segment expenses	(316)	(144)	(14)	186	158	251	16	(12)	(144)	19	–
<b>Total expenses</b>	<b>(2,470)</b>	<b>(929)</b>	<b>(1,093)</b>	<b>(673)</b>	<b>(395)</b>	<b>(1,267)</b>	<b>(3,973)</b>	<b>(1,192)</b>	<b>(973)</b>	<b>(234)</b>	<b>(13,199)</b>
<b>Share of post-tax results of associates and joint ventures</b>	<b>7</b>	<b>–</b>	<b>(7)</b>	<b>–</b>	<b>1</b>	<b>6</b>	<b>35</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>42</b>
<b>Profit on disposal of subsidiaries, associates and joint ventures</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>8</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>28</b>
<b>Business segment profit before tax</b>	<b>1,275</b>	<b>1,357</b>	<b>603</b>	<b>196</b>	<b>100</b>	<b>597</b>	<b>2,335</b>	<b>734</b>	<b>307</b>	<b>(397)</b>	<b>7,107</b>
<b>Additional information</b>											
Depreciation and amortisation	101	33	79	42	30	121	181	22	18	26	653
Impairment loss											
– intangible assets	–	13	–	–	–	1	–	–	–	–	14
Gain on acquisition	–	–	–	–	–	–	–	–	–	–	–
Impairment of goodwill	–	–	–	–	–	–	–	–	–	–	–
Investments in associates and joint ventures	(7)	1	(8)	–	–	108	171	–	–	112	377
<b>Total assets</b>	<b>88,516</b>	<b>74,577</b>	<b>22,128</b>	<b>43,704</b>	<b>9,193</b>	<b>36,376</b>	<b>839,956</b>	<b>89,221</b>	<b>18,209</b>	<b>5,703</b>	<b>1,227,583</b>
<b>Total liabilities</b>	<b>101,516</b>	<b>66,251</b>	<b>1,952</b>	<b>24,004</b>	<b>7,507</b>	<b>17,176</b>	<b>811,704</b>	<b>87,096</b>	<b>44,152</b>	<b>34,404</b>	<b>1,195,762</b>

# Notes to the accounts

## For the year ended 31st December 2008

### 53 Segmental reporting (continued)

#### Revenue by products and services

An analysis of revenue from external customers by product or service is presented below:

As at 31st December	2008 £m	2007 £m
<b>Net interest income</b>		
Cash and balances with central banks	174	145
Available for sale investments	2,355	2,580
Loans and advances to banks	1,267	1,416
Loans and advances to customers	23,754	19,559
Other	460	1,608
<b>Interest income</b>	<b>28,010</b>	<b>25,308</b>
Deposits from banks	(2,189)	(2,720)
Customer accounts	(6,714)	(4,110)
Debt securities in issue	(5,947)	(6,651)
Subordinated liabilities	(1,349)	(878)
Other	(396)	(1,348)
<b>Interest expense</b>	<b>(16,595)</b>	<b>(15,707)</b>
<b>Net interest income</b>	<b>11,415</b>	<b>9,601</b>
<b>Net fee and commission income</b>		
Brokerage fees	87	109
Investment management fees	1,616	1,787
Securities lending	389	241
Banking and credit related fees and commissions	7,208	6,367
Foreign exchange commissions	189	178
<b>Fee and commission income</b>	<b>9,489</b>	<b>8,682</b>
<b>Fee and commission expense</b>	<b>(1,082)</b>	<b>(970)</b>
<b>Net fee and commission income</b>	<b>8,407</b>	<b>7,712</b>
<b>Principal transactions</b>		
Rates related business	4,682	4,162
Credit related business	(3,422)	(403)
Net investment income	680	1,216
<b>Principal transactions</b>	<b>1,940</b>	<b>4,975</b>
Net premiums from insurance contracts	1,090	1,011
Net claims and benefits incurred on insurance contracts	(237)	(492)
Other income	454	224
<b>Total income net of insurance claims</b>	<b>23,069</b>	<b>23,031</b>

#### Interest income

Cash and balances with central banks interest income consists of interest income from cash on deposit with central banks. Available for sale investments interest income consists of the interest yield on debt securities, treasury bills and other eligible bills. Loans and advances to banks interest income consists of interest income from loans and advances to other banks. Loans and advances to customers interest income consists of interest income from loans, mortgages, advances and credit cards to customers. Other interest income principally consists of interest income relating to reverse repurchase agreements.

#### Interest expense

Deposits from banks interest expense consists of interest expense paid to other banks on their deposits with Barclays. Customer accounts interest expense consists of interest expense paid to customers on their current and savings account with Barclays. Debt securities in issue interest expense consists of interest expense paid to customers who hold Barclays debt securities in issue. Subordinated liabilities interest expense consists of interest expense paid to customers who hold Barclays subordinated liabilities. Other interest expense principally consists of interest expense relating to repurchase agreements and hedging activity.

#### Fee and commission income

Brokerage fees income consists of fees charged to facilitate transactions between buyers and sellers. The brokerage fee is charged for services such as negotiations, sales, purchases, delivery or advice on the transaction. Investment management fees are levied on assets under management. Securities lending fees are charged when stock is lent to third parties. Banking and credit related fees and commissions consist of fees and commissions charged on banking and credit card transactions. Foreign exchange commissions are earned on foreign exchange transactions with customers.

#### Fee and commission expense

Fee and commission expense consists of fees paid to third parties to facilitate transactions between buyers and sellers. The fee is charged for services such as negotiations, sales, purchases, delivery or advice on the transaction.

### 53 Segmental reporting (continued)

#### Principal transactions

Rates and Credit related business consists of profits and losses arising both on the purchase and sale of trading instruments and from the revaluation to market value together with the interest income and expense from these instruments and the related funding costs. Net investment income consists of the net gain from disposal of available for sale assets, dividend income, net gain from financial instruments designated at fair value and other investment income.

#### Total income net of insurance claims

Net premiums from insurance contracts consists of gross premiums from insurance contracts and premiums ceded to reinsurers. Net claims and benefits incurred on insurance contracts consists of gross claims and benefits incurred on insurance contracts and reinsurers' share of claims incurred. Other income consists of increase in fair value of assets held under linked liabilities to customers under investment contracts, increase in liabilities to customers under investment contracts, property rentals and other income.

#### Geographical information

(i) A geographical analysis of revenues from external customers is presented below:

	2008 £m	2007 £m
<b>Attributed to the UK</b>	<b>12,231</b>	13,158
<b>Attributed to other regions</b>		
Other European Union	3,633	3,374
United States	710	2,209
Africa	3,633	3,188
Rest of the World	2,862	1,102
<b>Total</b>	<b>23,069</b>	23,031

Individual countries included in Other European Union, Africa and Rest of the World contributing to more than 5% of income from external customers are as follows:

South Africa	2,618	2,374
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