CRANE CO /DE/
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One:

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from ______ to ______

Commission File Number: 1-1657

CRANE CO.

(Exact name of registrant as specified in its charter)

Delaware	**13-1952290**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
100 First Stamford Place, Stamford, CT	**06902**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 203-363-7300

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the issuer s classes of common stock, as of October 25, 2006

Common stock, $1.00 Par Value 61,025,068 shares

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Statements of Operations

(In Thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net sales	$ 567,704	$ 522,231	$ 1,675,237	$ 1,554,912
Operating costs and expenses:				
Cost of sales	378,054	356,058	1,125,978	1,071,033
Selling, general and administrative	118,487	104,414	354,790	325,372
Operating profit	71,163	61,759	194,469	158,507
Other income (expense)				
Interest income	552	503	2,163	1,004
Interest expense	(5,244)	(5,564)	(16,268)	(17,025)
Miscellaneous - net	1,461	778	7,143	2,844
	(3,231)	(4,283)	(6,962)	(13,177)
Income before income taxes	67,932	57,476	187,507	145,330
Provision for income taxes	21,889	17,434	59,602	44,616
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Basic net income per share:	$ 0.75	$ 0.67	$ 2.10	$ 1.69
Diluted net income per share:	$ 0.74	$ 0.66	$ 2.06	$ 1.67
Average basic shares outstanding	61,110	59,936	60,941	59,676
Average diluted shares outstanding	62,226	60,490	62,192	60,229
Dividends per share	$ 0.150	$ 0.125	$ 0.400	$ 0.325

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, except share amounts)

(Unaudited)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and Cash Equivalents	$ 99,077	$ 180,392
Accounts Receivable	342,865	289,521
Inventories:		
Finished goods	104,386	90,852
Finished parts and subassemblies	39,032	43,069
Work in process	53,551	46,406
Raw materials	104,994	92,027
	301,963	272,354
Deferred Tax Assets	38,426	42,104
Other Current Assets	13,041	14,024
Total Current Assets	795,372	798,395
Property, Plant and Equipment:		
Cost	754,081	738,368
Less accumulated depreciation	486,845	474,577
	267,236	263,791
Insurance Receivable - Asbestos	214,626	224,600
Other Assets	222,793	223,610
Intangible Assets, Net	118,905	60,735
Goodwill	712,377	568,355
Total Assets	$ 2,331,309	$ 2,139,486

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, except share amounts)

(Unaudited)

	September 30, 2006	December 31, 2005
Liabilities and Shareholders Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 315	$ 254
Accounts payable	155,557	149,647
Current asbestos liability	55,000	55,000
Accrued liabilities	186,024	174,366
U.S. and foreign taxes on income	28,984	19,322
Total Current Liabilities	425,880	398,589
Long-Term Debt	366,094	293,248
Accrued Pension and Postretirement Benefits	56,440	56,649
Deferred Tax Liability	70,417	71,406
Long-Term Asbestos Liability	486,899	526,830
Other Liabilities	31,875	39,470
Shareholders Equity:		
Preferred Shares, par value $.01; 5,000,000 shares authorized		
Common stock, par value $1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72,426	72,426
Capital surplus	128,997	114,788
Retained earnings	915,629	814,197
Accumulated other comprehensive income	64,579	31,090
Treasury stock	(287,927)	(279,207)
Total Shareholders Equity	893,704	753,294
Total Liabilities and Shareholders Equity	$ 2,331,309	$ 2,139,486
Common Stock Issued	72,426	72,426
Less: Common Stock held in Treasury	(11,442)	(12,018)
Common Stock Outstanding	60,984	60,408

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2006	2005
Operating activities:		
Net income	$ 127,905	$ 100,714
Income from joint venture	(4,525)	(4,476)
Gain on divestitures	(8,931)	
Depreciation and amortization	39,056	36,509
Stock-based compensation expense	11,288	6,452
Deferred income taxes	4,954	8,293
Cash used for operating working capital	(35,617)	(35,063)
Asbestos-related payments, net of insurance recoveries	(29,957)	(24,556)
Refund associated with terminated Master Settlement Agreement		9,925
Other	(1,257)	6,372
Total provided by operating activities	102,916	104,170
Investing activities:		
Capital expenditures	(22,312)	(17,634)
Proceeds from disposition of capital assets	3,317	1,569
Proceeds from divestitures	26,088	
Payment for acquisitions, net of cash acquired and liabilities assumed	(234,734)	(7,157)
Total used for investing activities	(227,641)	(23,222)
Financing activities:		
Equity:		
Dividends paid	(24,465)	(19,429)
Common shares acquired on the open market	(37,499)	
Stock incentive plan exercises, net of shares acquired	20,606	10,634
Excess tax benefit from stock-based compensation	7,575	
Debt:		
Issuance of Debt	71,700	
Repayments of long-term debt	(410)	(4,446)
Net increase in short-term debt	55	1,030
Total provided by (used for) financing activities	37,562	(12,211)
Effect of exchange rates on cash and cash equivalents	5,848	(5,860)
(Decrease) increase in cash and cash equivalents	(81,315)	62,877
Cash and cash equivalents at beginning of period	180,392	50,727

Cash and cash equivalents at end of period	$ 99,077	$ 113,604
Detail of Cash Used for Operating Working Capital		
Accounts receivable	$ (35,528)	$ (38,549)
Inventories	(16,174)	3,075
Other current assets	1,329	(1,235)
Accounts payable	1,530	(14,243)
Accrued liabilities	8,716	1,428
U.S. and foreign taxes on income	4,510	14,461
Total	$ (35,617)	$ (35,063)
Supplemental disclosure of cash flow information:		
Interest paid	$ 17,333	$ 18,304
Income taxes paid	22,292	13,588

See Notes to Consolidated Financial Statements.

Part I Financial Information

Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. These interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

2. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The requirements of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company believes that the adoption of FIN 48 will not have a material effect on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, provides a framework for measuring fair value under current standards in GAAP, and requires additional disclosure about fair value measurements. In accordance with the Statement, the definition of fair value retains the exchange price notion, and exchange price is defined as the price in an orderly transaction between market participants to sell an asset or transfer a liability. If there is a principal market for the asset or liability, the fair value measurement should reflect that price, whether that price is directly observable or otherwise used in a valuation technique. Depending on the asset or liability being valued, the inputs used to determine fair value can range from objective inputs such as prices based on market data independent from the entity, and subjective inputs such as the entity s own assumptions about the estimates that market participants would use. The Statement applies to other accounting pronouncements that require or permit fair value measurements and will be effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption will have on the Company s financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. As required by SFAS 158, the Company will initially recognize the funded status of its defined benefit and other postretirement plans and provide the required disclosures as of the fiscal year ended December 31, 2006. The Company is currently evaluating the provisions of SFAS No. 158 to determine the impact the adoption will have on the Company s financial statements.

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Quantifying Misstatements (SAB 108). SAB 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements requiring the use of both a balance sheet and an income statement approach when quantifying and evaluating the materiality of a misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company believes that the adoption of SAB 108 will not have a material effect on its financial statements.

3. Segment Results

Net sales, operating profit and assets by segment are as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Sales				
Aerospace & Electronics	$ 142,982	$ 141,722	$ 429,860	$ 409,243
Engineered Materials	71,636	75,558	239,931	235,550
Merchandising Systems	73,384	40,610	179,566	130,050
Fluid Handling	256,249	244,036	755,445	718,504
Controls	23,387	20,413	70,637	61,896
Intersegment Elimination	66	(108)	(202)	(331)
Total	$ 567,704	$ 522,231	$ 1,675,237	$ 1,554,912
Operating Profit				
Aerospace & Electronics	$ 25,272	$ 26,461	$ 73,919	$ 60,679
Engineered Materials	9,661	15,691	38,551	50,835
Merchandising Systems	8,887	3,529	17,101	11,362
Fluid Handling	29,404	21,131	83,780	53,588
Controls	2,112	1,711	7,664	5,287
Corporate	(4,173)	(6,764)	(26,546)	(23,244)
Total	$ 71,163	$ 61,759	$ 194,469	$ 158,507

(in thousands)	As of	
	September 30, 2006	December 31, 2005
Assets		
Aerospace & Electronics	$ 464,016	$ 476,400
Engineered Materials	274,362	189,353
Merchandising Systems	289,430	104,162
Fluid Handling	731,630	692,856
Controls	49,470	48,107
Corporate	522,401	628,608

Total	$ 2,331,309	$ 2,139,486

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

4. Stock-Based Compensation Plans

The Company has two stock-based compensation plans: the Stock Incentive Plan and the Non-Employee Director Stock Compensation Plan. Options are granted under the Stock Incentive Plan to officers and other key employees and directors at an exercise price equal to the fair market value of the shares on the date of grant, which is defined for purposes of the plans as the average of the high and low prices for the Company s common stock on the 10 trading days ending on the date of grant. Options become exercisable at a rate of 50% after the first year, 75% after the second year and 100% after the third year from the date of grant and expire six years after the date of grant (ten years for all options granted to directors and for options granted to officers and employees prior to 2004). The Stock Incentive Plan also provides for awards of restricted common stock to officers and other key employees, subject to forfeiture restrictions which lapse over time.

During the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payments (SFAS 123R), which requires an entity to measure and recognize the cost of employee services received in exchange for equity instrument awards based on the grant-date fair value of such awards. Previously, in accounting for its stock option compensation plans, the Company applied the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Intrinsic value is the amount by which the market price of the underlying stock exceeds the exercise price of the stock option or award on the measurement date, generally the date of grant. Prior to 2006, no stock option-based employee compensation expense was reflected in the Company s net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. However, the required pro forma fair-value based compensation cost disclosure was provided in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation , as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148).

The Company elected to adopt the modified prospective application of SFAS 123R effective January 1, 2006. Under this method, compensation expense is recognized for both new awards and the unvested portion of previously issued awards outstanding as of the effective date over the period the requisite employee services are rendered.

The Company determines the fair value of each grant using the Black-Scholes option pricing model. The following weighted-average assumptions for grants made during the nine-month periods ended September 30, 2006 and 2005 are as follows:

	2006	**2005**
Dividend yield	1.36%	1.49%
Volatility	26.40%	30.74%
Risk-free interest rate	4.28%	3.62%
Expected lives in years	4.20	4.20

Expected dividend yield is based on the Company s dividend policy. Expected stock volatility was determined based upon the historical volatility for the four-year-period preceding the date of grant. The risk-free interest rate was based on the yield curve in effect at the time the options were granted, using U.S. constant maturities over the expected life of the option. The expected term of the awards represents the period of time that options granted are expected to be outstanding.

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

Activity in the Company s stock option plans for the nine months ended September 30, 2006 was as follows:

Option Activity	Number of Shares (in 000 s)	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Options outstanding at beginning of period	6,125	$ 26.05	
Granted	940	36.88	
Exercised	(1,986)	25.29	
Canceled	(181)	31.97	
Options outstanding at end of period	4,898	28.22	4.49
Options exercisable at end of period	3,290	$ 25.77	4.33

During the first nine months of 2006 and 2005, the weighted-average fair value of options granted was $9.22 per share and $7.21 per share, respectively. During the first nine months of 2006 and 2005, the total intrinsic value of options exercised was $33.0 million and $5.1 million, respectively. The total cash received from these option exercises was $50.2 million and $14.2 million, respectively, and the tax benefit realized for the tax deductions from these option exercises was $9.3 million and $1.7 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2006 was $66.5 million and $52.8 million, respectively.

Included in the Company s share-based compensation was expense recognized for its restricted stock awards of $6.2 million and $6.5 million in the first nine months of 2006 and 2005, respectively. Changes in the Company s restricted stock for the nine months ended September 30, 2006 were as follows:

Restricted Stock Activity	Restricted Shares (in 000 s)	Weighted Average Grant-Date Fair Value
Unvested restricted stock at beginning of period	642	$ 26.05
Granted	246	36.81
Vested	(244)	26.32
Forfeited	(28)	32.20
Unvested restricted stock at end of period	616	$ 29.97

Prior to January 1, 2006, the Company accounted for stock-based awards using the intrinsic value method in accordance with APB 25. The following table illustrates the effect on three months and nine months ended September 30, 2005 net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148:

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Notes to Consolidated Financial Statements (Unaudited)

(in thousands)	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net income as reported	$ 40,042	$ 100,714
Add: Stock-based employee compensation of $1,579 and $6,452 for the three and nine months ended September 30, 2005, respectively, included in reported income, net of related tax effects	1,026	4,194
Less: Total stock-based employee compensation expense of $3,580 and $12,930 for the three and nine months ended September 30, 2005, respectively, determined under fair value based method for all awards, net of related tax effects	(2,367)	(8,525)
Net income pro forma	$ 38,701	$ 96,383
Basic earnings per share:		
As reported	$ 0.67	$ 1.69
Pro forma	$ 0.65	$ 1.62
Diluted earnings per share:		
As reported	$ 0.66	$ 1.67
Pro forma	$ 0.64	$ 1.60

The Company recognized share-based compensation expense of $11.3 million ($0.12 per diluted share, after related tax benefit of $3.9 million) in the first nine months of 2006 as a component of selling, general and administrative expense. In the first nine months of 2005, $6.5 million of share-based compensation expense was recognized, but because the Company adopted the new standard (SFAS 123R) prospectively as of January 1, 2006 it excludes expense related to stock options of $6.5 million. At September 30, 2006, there was $22.3 million of total unrecognized compensation cost related to stock-based compensation. That cost is expected to be recognized over a weighted average period of 1.7 years.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock-based awards as operating cash flows in the consolidated statement of cash flows. SFAS 123R requires cash flows resulting from excess tax benefits to be classified as financing cash flows. Excess tax benefits result from tax deductions in excess of the compensation cost recognized for those awards. For the nine months ended September 30, 2006, cash flow from operating activities was decreased $7.6 million with a corresponding increase in cash flow from financing activities related to excess tax benefits.

5. Net Income Per Share

The Company s basic earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the period.

(In thousands, except per share data)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Average basic shares outstanding	61,110	59,936	60,941	59,676
Effect of dilutive stock options	1,116	554	1,251	553

Average diluted shares outstanding	62,226	60,490	62,192	60,229
Basic net income per share	$ 0.75	$ 0.67	$ 2.10	$ 1.69
Diluted net income per share	0.74	0.66	2.06	1.67

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Notes to Consolidated Financial Statements (Unaudited)

6. Comprehensive Income

Total comprehensive income for the three and nine-month periods ended September 30, 2006 and 2005 is as follows:

(in thousands)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Foreign currency translation adjustments	1,739	(2,769)	33,489	(34,543)
Comprehensive income	$ 47,782	$ 37,273	$ 161,394	$ 66,171

7. Goodwill and Intangible Assets

Goodwill and intangible assets changes during the nine-month period ended September 30, 2006 primarily relate to the recording of preliminary purchase price allocations from the acquisition of substantially all the assets of CashCode Co. Inc. (CashCode) in January 2006, all of the outstanding capital stock of Telequip Corporation (Telequip) in June 2006, certain assets of Automatic Products international, ltd. (APi) in June and September 2006 and all of the outstanding capital stock of Noble Composites, Inc. (Noble) in September 2006. The final purchase price allocations will be completed during 2006.

Changes to goodwill are as follows:

(in thousands)	**Nine Months Ended September 30, 2006**	**Year Ended December 31, 2005**
Balance at beginning of period, net of accumulated amortization	$ 568,355	$ 579,081
Additions	133,521	4,569
Translation and other adjustments	10,501	(15,295)
Balance at end of period, net of accumulated amortization	$ 712,377	$ 568,355

Changes to intangible assets are as follows:

(in thousands)	**Nine Months Ended September 30, 2006**	**Year Ended December 31, 2005**
Balance at beginning of period, net of accumulated amortization	$ 60,735	$ 64,450
Additions	65,098	2,570
Translation and other adjustments	3,103	1,448
Amortization expense	(10,031)	(7,733)

Balance at end of period, net of accumulated amortization	$	118,905	$	60,735

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Notes to Consolidated Financial Statements (Unaudited)

A summary of intangible assets follows:

(in thousands)	**September 30, 2006**		**December 31, 2005**	
	Gross Asset	**Accumulated Amortization**	**Gross Asset**	**Accumulated Amortization**
Intellectual property rights	$ 104,119	$ 41,734	$ 78,296	$ 37,196
Drawings	10,825	7,562	10,825	7,363
Other	67,922	14,665	24,272	8,099
	$ 182,866	$ 63,961	$ 113,393	$ 52,658

The Other category includes assets such as customer/distributor relationships and customer sales backlog. Amortization expense for these intangible assets is currently estimated to be approximately $17.7 million in 2007, $14.4 million in 2008, $12.1 million in 2009, $11.9 million in 2010 and $10.7 million in 2011. Estimated amounts are subject to change based on the preliminary purchase price allocations currently being completed for CashCode, APi, Telequip and Noble.

Intangible assets totaled $118.9 million, net of accumulated amortization of $64.0 million at September 30, 2006. Included within this amount is $19.1 million of intangibles with indefinite useful lives, consisting of trade names which are not being amortized in accordance with the guidance of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

8. Acquisitions and Dispositions

In January 2006, the Company acquired substantially all of the assets of CashCode, a privately held company specializing in niche applications for banknote validation, storage and recycling devices for use in vending, gaming, retail and transportation applications, for approximately $85 million in cash. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 90% will be for the acquisition of goodwill and intangibles. CashCode had sales of approximately $48 million in 2005. CashCode is located in Concord, Ontario, Canada and employs approximately 350 people worldwide, serving a global marketplace with 75% of its sales outside the United States, of which the majority are in Europe and Russia. CashCode was integrated into the Company s Merchandising Systems segment.

In June 2006, the Company acquired certain assets of APi, a privately held manufacturer of vending equipment, for a cash purchase price of approximately $20 million. In September 2006, additional assets of APi were acquired and a second payment of approximately $8 million was made. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 65% will be for the acquisition of goodwill and intangibles. The acquisition included APi s extensive distribution network, product line designs and trade names, manufacturing equipment, aftermarket parts business, inventory and other related assets. The manufacturing equipment has been moved in October to the Crane Merchandising Systems facility in St. Louis, Missouri. The purchase did not include APi s manufacturing facility located in St. Paul, Minnesota. APi will be integrated into the Company s Merchandising Systems segment.

Also in June 2006, the Company acquired all of the outstanding capital stock of Telequip for a cash purchase price of approximately $45 million. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 95% will be for the acquisition of goodwill and intangibles. Telequip, with headquarters in Salem, New Hampshire, has been manufacturing coin dispensing solutions since 1974. Telequip provides embedded and free-standing coin dispensing solutions

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Notes to Consolidated Financial Statements (Unaudited)

principally focused on the retail market which includes grocery and convenience stores, quick-service restaurants and self-checkout/self-service kiosks. Telequip s coin dispensers have a particularly strong position in automated self-checkout markets. Telequip will be integrated into the Company s Merchandising Systems segment.

In September 2006, the Company acquired all the outstanding capital stock of Noble for a cash purchase price of $72 million. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 91% will be for the acquisition of goodwill and intangibles. Noble, located in Goshen, Indiana, is a privately held company specializing in the manufacture and sale of premium, high-gloss finished composite panels used by motor home and travel trailer manufacturers. Noble will be integrated into the Company s Engineered Materials segment.

On October 23, 2006, the Company announced that it had acquired all of the outstanding capital stock of Dixie-Narco Inc., a manufacturer of can and bottle vending machines, for a purchase price of $46 million in cash. Dixie-Narco manufactures can and bottle vending machines primarily for well-known companies such as Coca-Cola, PepsiCo, and Dr. Pepper/Seven Up. Dixie-Narco will be integrated into the Company s Merchandising Systems segment.

In April 2006, the Company completed the sale of the outstanding capital stock of Westad Industri A/S, a small specialty valve business located in Norway. This business had $25 million in sales in 2005. Westad was included in the Company s Fluid Handling segment. In May 2006, the Company completed the sale of substantially all of the assets of Resistoflex Aerospace, a manufacturer of high-performance hose and high pressure fittings located in Jacksonville, FL. This business had sales of $16 million in 2005. Resistoflex Aerospace was included in the Company s Aerospace & Electronics segment. The Company recognized an $8.9 million net gain from these divestitures. Resistoflex Aerospace was sold at a gain which was partly offset by a loss on Westad.

9. Asbestos Liability

Information Regarding Claims and Costs

As of September 30, 2006, the Company was a defendant in cases filed in various state and federal courts alleging injury or death as a result of exposure to asbestos. Activity related to asbestos claims during the periods indicated was as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Year Ended December 31,**
	2006	**2005**	**2006**	**2005**	**2005**
Beginning claims	88,833	88,563	89,017	84,977	84,977
New claims	1,555	1,544	3,837	6,636	7,986
Settlements	(351)	(449)	(923)	(1,188)	(1,829)
Dismissals	(723)	(733)	(2,617)	(1,500)	(2,117)
Ending claims *	89,314	88,925	89,314	88,925	89,017

* Does not include 36,177 maritime actions that were filed in the United States District Court for the Northern District of Ohio and transferred to the Eastern District of Pennsylvania pursuant to an order by the Federal Judicial Panel on Multi-District Litigation (MDL). These claims have been placed on the inactive docket of cases that are administratively dismissed without prejudice in the MDL.

Part I Financial Information

Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

Of the 89,314 pending claims as of September 30, 2006, approximately 25,000 claims were pending in New York, approximately 32,000 claims were pending in Mississippi, approximately 9,200 claims were pending in Texas and approximately 3,400 claims were pending in Ohio, all jurisdictions in which legislation or judicial orders restrict the types of claims that can proceed to trial on the merits.

Since the termination of the comprehensive master settlement agreement (MSA) on January 24, 2005, the Company has been resolving claims filed against it in the tort system. The Company has not re-engaged in discussions with representatives of current or future asbestos claimants with respect to such a comprehensive settlement. While the Company believes that federal legislation to establish a trust fund to compensate asbestos claimants FACE="Times New Roman" SIZE="2">)

Amortisation of intangible assets

(61) (36)

Operating expenses

(1,422) (1,093)

Share of post-tax results of associates and joint ventures

(3) (7)

Gain on acquisition

92

Profit before tax

789 603

Balance Sheet Information

Loans and advances to customers

£27.4bn £19.7bn

Total assets

£30.9bn £22.1bn

Performance Ratios

Cost:income ratio[1]

44% 43%

Other Financial Measures

Risk tendency[1,2]	£1,475m	£955m
Risk weighted assets	£27.3bn	£20.2bn

1 Defined on page 103.
2 Further information on risk tendency is included on page 67.

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Results by Business

Barclaycard

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

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

Net interest income increased 30% (£412m) to £1,786m (2007: £1,374m) driven by 58% growth in international average extended credit card balances to £5.2bn.

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

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

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

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

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

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

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

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

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Results by Business

Global Retail and Commercial Banking - Western Europe

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest income	856	527
Net fee and commission income	383	322
Net trading income	4	13
Net investment income	161	93
Principal transactions	**165**	**106**
Net premiums from insurance contracts	352	145
Other income	39	7
Total income	**1,795**	**1,107**
Net claims and benefits incurred under insurance contracts	(365)	(170)
Total income net of insurance claims	**1,430**	**937**
Impairment charges and other credit provisions	(296)	(76)
Net income	**1,134**	**861**
Operating expenses excluding amortisation of intangible assets	(915)	(665)
Amortisation of intangible assets	(14)	(8)
Operating expenses	**(929)**	**(673)**
Profit on disposal of subsidiaries, associates and joint ventures		8
Gain on acquisition	52	
Profit before tax	**257**	**196**
Balance Sheet Information		
Loans and advances to customers	£ 53.5bn	£ 35.0bn
Customer accounts	£ 15.3bn	£ 9.4bn
Total assets	£ 64.7bn	£ 43.7bn
Performance Ratios		
Cost:income ratio[1]	65%	72%
Other Financial Measures		
Risk tendency[1,2]	£ 270m	£ 135m
Risk weighted assets	£ 36.5bn	£ 25.0bn

1 *Defined on page 103.*
2 *Further information on risk tendency is included on page 67.*

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Results by Business

Global Retail and Commercial Banking - Western Europe

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

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

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

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

Principal transactions grew £59m to £165m (2007: £106m) including gains from the Visa IPO (£65m) and the sale of shares in MasterCard (£17m) which enabled Western Europe to invest in the expansion of the business.

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

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

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

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

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Results by Business

Global Retail and Commercial Banking - Emerging Markets

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest income	616	319
Net fee and commission income	223	140
Net trading income	78	56
Net investment income	91	16
Principal transactions	**169**	**72**
Other income	11	2
Total income	**1,019**	**533**
Impairment charges and other credit provisions	(166)	(39)
Net income	**853**	**494**
Operating expenses excluding amortisation of intangible assets	(711)	(391)
Amortisation of intangible assets	(8)	(4)
Operating expenses	**(719)**	**(395)**
Share of post-tax results of associates and joint ventures		1
Profit before tax	**134**	**100**
Balance Sheet Information		
Loans and advances to customers	£ 10.1bn	£ 5.1bn
Customer accounts	£ 9.6bn	£ 6.2bn
Total assets	£ 14.7bn	£ 9.2bn
Performance Ratios		
Cost:income ratio[1]	71%	74%
Other Financial Measures		
Risk tendency[1,2]	£ 350m	£ 140m
Risk weighted assets	£ 15.1bn	£ 10.5bn

1 *Defined on page 103.*
2 *Further information on risk tendency is included on page 67.*

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Results by Business

Global Retail and Commercial Banking - Emerging Markets

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

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

Net interest income increased 93% (£297m) to £616m (2007: £319m) as loans and advances to customers increased 98% to £10.1bn (2007: £5.1bn). Customer accounts increased 55% to £9.6bn (2007: £6.2bn).

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

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

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

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

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

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Results by Business

Global Retail and Commercial Banking - Absa

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest income	1,104	1,055
Net fee and commission income	762	684
Net trading income	6	
Net investment income	105	70
Principal transactions	**111**	**70**
Net premiums from insurance contracts	234	227
Other income	113	77
Total income	**2,324**	**2,113**
Net claims and benefits incurred under insurance contracts	(126)	(114)
Total income net of insurance claims	**2,198**	**1,999**
Impairment charges and other credit provisions	(347)	(146)
Net income	**1,851**	**1,853**
Operating expenses excluding amortisation of intangible assets	(1,255)	(1,212)
Amortisation of intangible assets	(50)	(55)
Operating expenses	**(1,305)**	**(1,267)**
Share of post-tax results of associates and joint ventures	5	6
Profit on disposal of subsidiaries, associates and joint ventures	1	5
Profit before tax	**552**	**597**
Balance Sheet Information		
Loans and advances to customers	£ 32.7bn	£ 29.9bn
Customer accounts	£ 17.0bn	£ 13.0bn
Total assets	£ 40.4bn	£ 36.4bn
Performance Ratios		
Cost:income ratio[1]	59%	63%
Other Financial Measures		
Risk tendency[1,2]	£ 255m	£ 190m
Risk weighted assets	£ 18.8bn	£ 17.8bn

1 *Defined on page 103.*
2 *Further information on risk tendency is included on page 67.*

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Results by Business

Global Retail and Commercial Banking - Absa

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

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

Net interest income improved 5% (£49m) to £1,104m (2007: £1,055m) reflecting strong balance sheet growth. Average customer assets increased 9% to £27.7bn (2007: £25.3bn) primarily driven by retail and commercial mortgages and commercial cheque accounts. Average customer liabilities increased 17% to £13.5bn (2007: £11.5bn), primarily driven by retail savings.

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

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

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

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

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

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

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Results by Business

Barclays Capital

	Year Ended 31.12.08 £m		Year Ended 31.12.07 £m	
Income Statement Information				
Net interest income		1,724		1,179
Net fee and commission income		1,429		1,235
Net trading income		1,506		3,739
Net investment income		559		953
Principal transactions		**2,065**		**4,692**
Other income		13		13
Total income		**5,231**		**7,119**
Impairment charges		(2,423)		(846)
Net income		**2,808**		**6,273**
Operating expenses excluding amortisation of intangible assets		(3,682)		(3,919)
Amortisation of intangible assets		(92)		(54)
Operating expenses		**(3,774)**		**(3,973)**
Share of post-tax results of associates and joint ventures		6		35
Gain on acquisition		2,262		
Profit before tax		**1,302**		**2,335**
Balance Sheet Information				
Corporate lending portfolio	£	76.6bn	£	52.3bn
Loans and advances to banks and customers	£	206.8bn	£	135.6bn
Total assets	£	1,629.1bn	£	839.9bn
Performance Ratios				
Cost:income ratio[1]		72%		56%
Other Financial Measures				
Risk tendency[1,2]	£	415m	£	140m
Risk weighted assets	£	227.4bn	£	178.2bn
Average DVaR (95%)	£	53.4m	£	32.5m

1 *Defined further on page 103.*
2 *Further information on risk tendency is included on page 67.*

Results by Business

Barclays Capital

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

Net income included gross losses of £8,053m (2007: £2,999m) due to continuing dislocation in the credit markets. These losses were partially offset by income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on issued notes by Barclays Capital. The gross losses, comprised £6,290m (2007: £2,159m) against income and £1,763m (2007: £782m) in impairment charges. Further detail is provided on page 36.

The integration of the Lehman Brothers North American business is complete and the acquired businesses made a positive contribution, with good results in equities, fixed income and advisory. There was a gain on acquisition of £2,262m. Not included in this gain is expenditure relating to integration of the acquired business.

Income was down 27% at £5,231m (2007: £7,119m) driven by the impact of the market dislocation. There was very strong underlying growth in the US driven by fixed income, prime services and the acquired businesses. In other regions income fell driven by the challenging environment.

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

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

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

Operating expenses fell 5% (£199m) to £3,774m (2007: £3,973m) due to lower performance related pay, partially offset by operating costs of the acquired businesses.

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

Total assets increased 94% (£789.2bn) to £1,629.1bn (31st December 2007: £839.9bn) due to an increase in derivative assets of £736.6bn, predominantly driven by significant volatility and movements in yield curves during the year, together with a substantial depreciation in Sterling against most major currencies. Risk weighted assets increased 28% to £227.4bn (31st December 2007: £178.2bn). This was driven by the depreciation in Sterling against the US Dollar and Euro, and an increase in market volatility.

Barclays PLC 2008 Results

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Results by Business

Barclays Global Investors

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest expense	(38)	(8)
Net fee and commission income	1,917	1,936
Net trading (loss)/income	(14)	5
Net investment loss	(29)	(9)
Principal transactions	**(43)**	**(4)**
Other income	8	2
Total income	**1,844**	**1,926**
Operating expenses excluding amortisation of intangible assets	(1,234)	(1,184)
Amortisation of intangible assets	(15)	(8)
Operating expenses	**(1,249)**	**(1,192)**
Profit before tax	**595**	**734**
Balance Sheet Information		
Total assets	£ 71.3bn	£ 89.2bn
Performance Ratios		
Cost:income ratio[1]	68%	62%
Other Financial Measures		
Risk weighted assets	£ 3.9bn	£ 4.4bn

1 *Defined on page 103.*

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Results by Business

Barclays Global Investors

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

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

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

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

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

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

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Results by Business

Barclays Wealth

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest income	486	431
Net fee and commission income	720	739
Net trading (loss)/income	(11)	3
Net investment (loss)/income	(333)	52
Principal transactions	**(344)**	**55**
Net premium from insurance contracts	136	195
Other income	26	19
Total income	**1,024**	**1,439**
Net claims and benefits incurred under insurance contracts	300	(152)
Total income net of insurance claims	**1,324**	**1,287**
Impairment charges and other credit provisions	(44)	(7)
Net income	**1,280**	**1,280**
Operating expenses excluding amortisation of intangible assets	(919)	(967)
Amortisation of intangible assets	(16)	(6)
Operating expenses	**(935)**	**(973)**
Profit on disposal of subsidiaries, associates and joint ventures	326	
Profit before tax	**671**	**307**
Balance Sheet Information		
Loans and advances to customers	£ 11.4bn	£ 9.0bn
Customer accounts	£ 42.4bn	£ 34.4bn
Total assets	£ 13.3bn	£ 18.2bn
Performance Ratios		
Cost:income ratio[1]	71%	76%
Other Financial Measures		
Risk tendency[1,2]	£ 20m	£ 10m
Risk weighted assets	£ 10.3bn	£ 8.2bn

1 Defined on page 103.

2 Further information on risk tendency is included on page 67.

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Results by Business

Barclays Wealth

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

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

Net interest income increased 13% (£55m) to £486m (2007: £431m) reflecting strong growth in both customer deposits and lending. Average deposits grew 19% to £37.2bn (2007: £31.2bn). Average lending grew 31% to £9.7bn (2007: £7.4bn).

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

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

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

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

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

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

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Results by Business

Head Office Functions and Other Operations

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Income Statement Information		
Net interest income	182	128
Net fee and commission income	(486)	(424)
Net trading loss	(245)	(66)
Net investment income/(loss)	27	(17)
Principal transactions	**(218)**	**(83)**
Net premiums from insurance contracts	119	152
Other income	26	35
Total income	**(377)**	**(192)**
Impairment charges and other credit provisions	(30)	(3)
Net income	**(407)**	**(195)**
Operating expenses excluding amortisation of intangible assets	(451)	(233)
Amortisation of intangible assets		(1)
Operating expenses	**(451)**	**(234)**
Profit on disposal of associates and joint ventures		1
Loss before tax	**(858)**	**(428)**
Balance Sheet Information		
Total assets	£ 3.1bn	£ 5.7bn
Other Financial Measures		
Risk tendency[1,2]	£ 5m	£ 10m
Risk weighted assets	£ 0.4bn	£ 1.1bn

1 *Defined on page 103.*
2 *Further information on risk tendency is included on page 67.*

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Results by Business

Head Office Functions and Other Operations

Head Office Functions and Other Operations loss before tax increased £430m to £858m (2007: £428m).

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

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

Net interest income increased £54m to £182m (2007: £128m) primarily due to a consolidation adjustment between net interest income and trading income required to match the booking of certain derivative hedging transactions between different segments in the Group. This resulted in a £111m increase in net interest income to £143m (2007: £32m) with an equal and opposite decrease in principal transactions. This was partially offset by an increase in costs in central funding activity due to the money market dislocation, in particular LIBOR resets.

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

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

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

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

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Risk Management

On pages 31 to 71 we have provided an analysis of the key risks faced by the Group across a number of asset classes and businesses, referencing significant portfolios and including summary measures of asset quality. Additional information referenced in this section is to be found in the notes to the financial information.

We set out on pages 31 to 34 a detailed analysis of the Group s total assets by valuation basis and underlying asset class, to provide an overview of the nature of the Group s assets and risks.

Detailed disclosures and analysis are provided on Barclays Capital s credit market exposures by asset class, covering current exposures, losses in the year, sales and pay downs, foreign exchange movements and where appropriate details of collateral held; geographic spread, vintage and credit quality. These are set on pages 35 to 51.

On pages 52 to 68, we review the Group s other credit risk exposures, focusing on the quality of the Group s loans and advances to customer and banks, as well as the credit quality of the Group s debt securities.

The Group s principal exposure to market risk is set out on pages 69, as captured through a review of Barclays Capital s average daily value at risk (DVaR).

Finally, on pages 70 to 71, we provide summary information in respect of Barclays liquidity risk.

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Risk Management

Analysis of Total Assets

	Notes[1]	As at 31.12.08 £m	Accounting Basis Fair Value £m	Cost Based Measure £m
Assets				
Cash and balances at central banks		**30,019**		**30,019**
Items in the course of collection from other banks		**1,695**		**1,695**
Treasury & other eligible bills		4,544	4,544	
Debt securities		148,686	148,686	
Equity securities		30,535	30,535	
Traded loans		1,070	1,070	
Commodities[7]		802	802	
Trading portfolio assets		**185,637**	**185,637**	
Financial assets designated at fair value				
Loans and advances		30,187	30,187	
Debt securities		8,628	8,628	
Equity securities		6,496	6,496	
Other financial assets[8]		9,231	9,231	
Held for own account		**54,542**	**54,542**	
Held in respect of linked liabilities to customers under investment contracts[9]		**66,657**	**66,657**	
Derivative financial instruments	16	**984,802**	**984,802**	
Loans and advances to banks	19, 21	**47,707**		**47,707**
Loans and advances to customers	20, 21	**461,815**		**461,815**
Debt securities		58,831	58,831	
Equity securities		2,142	2,142	
Treasury & other eligible bills		4,003	4,003	
Available for sale financial instruments		**64,976**	**64,976**	
Reverse repurchase agreements and cash collateral on securities borrowed		130,354		130,354

Other assets	6,302		6,302
Current tax assets	389		389
Investments in associates and joint ventures	341		341
Goodwill	7,625		7,625
Intangible assets	2,777		2,777
Property, plant and equipment	4,674		4,674
Deferred tax assets	2,668		2,668
	2,052,980	**1,356,614**	**696,366**

1 *Notes start on page 76.*
2 *Further analysis of loans and advances is on pages 52 to 66.*
3 *Further analysis of debt securities and other bills is on page 68*
4 *Reverse repurchase agreements comprise primarily short-term cash lending with assets pledged by counterparties securing the loan.*
5 *Equity securities comprise primarily equity securities determined by available quoted prices in active markets.*

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Risk Management

Analysis of Total Assets						Sub Analysis
Derivatives £m	Loans and Advances[2] £m	Debt Securities and Other Bills[3] £m	Reverse Repurchase[4] £m	Equity Securities[5] £m	Other £m	Credit Market Exposures[6] £m
					30,019	
					1,695	
		4,544				
		148,686				4,745
				30,535		
	1,070					
					802	
	1,070	**153,230**		**30,535**	**802**	
	30,057				130	14,429
		8,628				
				6,496		
	1,469		7,283		479	
	31,526	**8,628**	**7,283**	**6,496**	**609**	
					66,657	
984,802						9,234
	47,707					
	461,815					12,808
		58,831				727
				2,142		
		4,003				
		62,834		**2,142**		
			130,354			
					6,302	109
					389	

					341
					7,625
					2,777
					4,674
					2,668
984,802	**542,118**	**224,692**	**137,637**	**39,173**	**124,558**

6 *Further analysis of Barclays Capital credit market exposures is on pages 35 to 51. Off-balance sheet commitments of £1,030m not included in the table above.*

7 *Commodities primarily consists of physical inventory positions.*

8 *These instruments consist primarily of loans with embedded derivatives and reverse repurchase agreements designated at fair value.*

9 *Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have not been further analysed as the Group is not exposed to the risks inherent in these assets.*

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Risk Management

Analysis of Barclays Capital Credit Market Exposures by Asset Class

	As at 31.12.08 £m	ABS CDO Super Senior £m	Other US Sub-prime £m	Alt-A £m	RMBS Wrapped by Monoline Insurers £m
Debt securities	4,745		782	2,532	
Trading portfolio assets	**4,745**		782	2,532	
Loans and advances	**14,429**		1,565	778	
Financial assets designated at fair value	**14,429**		1,565	778	
Derivative financial instruments	**9,234**		643	398	1,639
Loans and advances to customers	**12,808**	3,104	195		
Debt securities	727		147	580	
Available for sale financial instruments	**727**		147	580	
Other assets	**109**		**109**		
Exposure on balance sheet		**3,104**	**3,441**	**4,288**	**1,639**

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Risk Management

Commercial Real Estate Loans £m	Commercial Mortgage Backed Securities £m	CMBS Wrapped by Monoline Insurers £m	Leveraged Finance £m	SIVs and SIV-lites £m	CDPCs £m	CLO and Other Exposure Wrapped by Monoline Insurers £m
	1,420			11		
	1,420			11		
11,555				531		
11,555				531		
23	(685)	1,854		273	150	4,939
			9,361	148		
11,578	**735**	**1,854**	**9,361**	**963**	**150**	**4,939**

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Risk Management

Barclays Capital Credit Market Exposures

Barclays Capital s credit market exposures primarily relate to US residential mortgages, commercial mortgages and leveraged finance businesses that have been significantly impacted by the continued deterioration in the global credit markets. The exposures include both significant positions subject to fair value movements in the profit and loss account and positions that are classified as loans and advances and available for sale. None of the exposure disclosed below has been reclassified to loans and advances under the amendments to IAS 39.

The exposures are set out by asset class in US Dollars and Sterling below:

		$m[1]		£m[1]	
US Residential Mortgages	**Notes**	**As at 31.12.08**	**As at 31.12.07**	**As at 31.12.08**	**As at 31.12.07**
ABS CDO super senior	A1	4,526	9,356	3,104	4,671
Other US sub-prime	A2	5,017	10,089	3,441	5,037
Alt-A	A3	6,252	9,847	4,288	4,916
US RMBS exposure wrapped by monoline insurers	A4	2,389	1,462	1,639	730
Commercial Mortgages					
Commercial real estate	B1	16,882	22,239	11,578	11,103
Commercial mortgage-backed securities	B1	1,072	2,596	735	1,296
CMBS exposure wrapped by monoline insurers	B2	2,703	395	1,854	197
Other Credit Market Exposures					
Leveraged finance	C1	15,152	18,081	10,391	9,027
SIVs and SIV-lites	C2	1,404	1,570	963	784
CDPCs	C3	218	39	150	19
CLO and other exposure wrapped by monoline insurers	C4	7,202	817	4,939	408

These exposures have been actively managed during the year in an exceptionally challenging market environment and have been reduced by net sales and paydowns of £6,311m, offset by the 37% appreciation of the US Dollar against Sterling. In January 2009, there was an additional sale of £3,056m of leveraged finance exposure which was repaid at par. Exposures at 31st December 2008 included £1,060m of securities from the acquisition of Lehman Brothers North American businesses. Exposures wrapped by monolines have increased during the course of 2008 as a result of declines in the fair value of the underlying assets.

1 *As the majority of exposure is held in US Dollars the exposures above are shown in both US Dollars and Sterling.*

Barclays PLC 2008 Results

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There were gross losses of £8,053m (2007: £2,999m) in the year to 31st December 2008. These losses were partially offset by related income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on issued notes measured at fair value through the profit and loss account.

The gross losses, which included £1,763m (2007: £782m) in impairment charges, comprised: £5,584m (2007: £2,811m) against US RMBS exposures; £1,488m (2007: £14m) against commercial mortgage exposures; and £981m (2007: £174m) against other credit market exposures.

	Fair Value Losses £m	Impairment Charge £m	Gross Losses £m
ABS CDO super senior	(78)	(1,383)	(1,461)
Other US sub-prime	(1,560)	(168)	(1,728)
Alt-A	(1,858)	(125)	(1,983)
US RMBS wrapped by monoline insurers	(412)		(412)
Total US residential mortgages	**(3,908)**	**(1,676)**	**(5,584)**
US	(671)		(671)
Europe	(350)		(350)
Total commercial real estate	**(1,021)**		**(1,021)**
Commercial mortgage-backed securities	(127)		(127)
CMBS wrapped by monoline insurers	(340)		(340)
Total commercial mortgages	**(1,488)**		**(1,488)**
SIVs and SIV-Lites	(143)	(87)	(230)
CDPCs	(14)		(14)
CLO and other assets wrapped by monoline insurers	(737)		(737)
Total other credit market	**(894)**	**(87)**	**(981)**
Total	**(6,290)**	**(1,763)**	**(8,053)**

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Risk Management

A. US Residential Mortgages

US residential mortgage exposures have reduced by 19% in Sterling terms, since 31st December 2007.

A1. ABS CDO Super Senior

During the year ABS CDO Super Senior exposures reduced by £1,567m to £3,104m (31st December 2007: £4,671m). Net exposures are stated after writedowns and charges of £1,461m incurred in 2008 (2007: £1,816m) and hedges of £nil (31st December 2007: £1,347m). There were no hedges in place at 31st December 2008 as the corresponding liquidity facilities had been terminated. There were liquidations and paydowns of £2,318m in the year; weaker Sterling and a reduction in hedges increased exposure by £865m and £1,347m respectively.

The remaining ABS CDO Super Senior exposure at 31st December 2008 comprised five high grade liquidity facilities which were fully drawn and classified within loans and receivables, and no remaining mezzanine exposure. At 31st December 2007 there were 15 facilities of which nine were high grade and six mezzanine.

The impairment assessment of remaining super senior positions is based on cash flow methodology using standard market assumptions such as default curves and remittance data to calculate the net present value of the future losses for the collateral pool over time. As a result, future potential impairment charges depend on changes in these assumptions.

We have included all ABS CDO Super Senior exposure in the US residential mortgages section as nearly 90% of the underlying collateral relates to US RMBS. The impairment applied to the notional collateral is set out in the table opposite.

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Risk Management

A1. ABS CDO Super Senior

	As at 31.12.08 High Grade £m	Total £m	As at 31.12.07 High Grade £m	Mezzanine £m	Total £m	As at 31.12.08 Marks %	As at 31.12.07 Marks %
2005 and earlier	1,226	1,226	1,458	1,152	2,610	90%	69%
2006	471	471	1,654	314	1,968	37%	47%
2007 and 2008	25	25	176	87	263	69%	53%
Sub-prime	**1,722**	**1,722**	**3,288**	**1,553**	**4,841**	**75%**	**60%**
2005 and earlier	891	891	714	102	816	77%	96%
2006	269	269	594	68	662	75%	90%
2007 and 2008	62	62	163	13	176	37%	80%
Alt-A	**1,222**	**1,222**	**1,471**	**183**	**1,654**	**74%**	**92%**
Prime	520	520	662	123	785	100%	100%
RMBS CDO	402	402	842	445	1,287	0%	19%
Sub-prime second lien	127	127	158		158	0%	32%
Total US RMBS	**3,993**	**3,993**	**6,421**	**2,304**	**8,725**	**68%**	**63%**
CMBS	44	44	189	110	299	100%	96%
Non-RMBS CDO	453	453	429	80	509	56%	49%
CLOs	35	35	26		26	100%	100%
Other ABS	51	51	136	4	140	100%	100%
Total Other ABS	**583**	**583**	**780**	**194**	**974**	**66%**	**72%**
Total Notional Collateral	**4,576**	**4,576**	**7,201**	**2,498**	**9,699**	**68%**	**64%**
Subordination	(459)	(459)	(1,001)	(864)	(1,865)		
Gross exposure pre-impairment	**4,117**	**4,117**	**6,200**	**1,634**	**7,834**		
Impairment allowances	(1,013)	(1,013)	(290)	(432)	(722)		
Trading losses gross of hedges			(1,041)	(53)	(1,094)		
Hedges			(960)	(387)	(1,347)		
Net exposure	**3,104**	**3,104**	**3,909**	**762**	**4,671**		

Collateral marks including liquidated structures	**32%**	**62%**

1 *Marks above reflect the gross exposure after impairment and subordination and do not include the benefit of hedges. The change in marks since 31st December 2007 primarily results from the liquidation during 2008 of the most impaired structures*

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Consolidated collateral of £8.4bn relating to the ten CDOs that were liquidated in 2008 has been sold or are stated at fair value net of hedges within Other US sub-prime, Alt-A and CMBS exposures. The notional collateral remaining at 31st December 2008 is marked at approximately 12%. The collateral valuation for all ABS CDO Super Senior deals, including those liquidated and consolidated in 2008, is approximately 32% (31st December 2007: 62%).

The collateral for the outstanding ABS CDO Super Senior exposures primarily comprises residential mortgage backed securities (RMBS). At 31st December 2008 the residual exposure contains a higher proportion of collateral originated in 2005 and earlier than at 31st December 2007. There is minimal exposure to collateral originated in 2007 or later. The vintages of the sub-prime, Alt-A and US RMBS collateral are set out in the table below.

	As at 31.12.08	As at 31.12.07
Sub-prime Collateral by Vintage		
2005 and earlier	**71%**	54%
2006	**27%**	41%
2007 and 2008	**2%**	5%
Alt-A Collateral by Vintage		
2005 and earlier	**73%**	49%
2006	**22%**	40%
2007 and 2008	**5%**	11%
US RMBS Collateral by Vintage		
2005 and earlier	**72%**	53%
2006	**25%**	40%
2007 and 2008	**3%**	7%

RMBS collateral for the ABS CDO Super Senior exposures is subject to public ratings. The ratings of sub-prime, Alt-A and total US RMBS CDO collateral are set out in the table below.

	31.12.08 High Grade	31.12.07 High Grade	31.12.07 Mezzanine	31.12.07 Total
Sub-prime US RMBS Ratings				
AAA/AA	42%	43%	2%	30%
A/BBB	21%	51%	82%	60%
Non-investment Grade	37%	6%	16%	10%
Alt-A RMBS Ratings				
AAA/AA	66%	89%	47%	85%
A/BBB	7%	8%	45%	12%
Non-investment Grade	27%	3%	8%	3%
Total US RMBS Ratings				
AAA/AA	50%	63%	14%	50%
A/BBB	13%	31%	70%	41%
Non-investment Grade	37%	6%	16%	9%

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Risk Management

A2. Other US Sub-Prime

	As at 31.12.08 £m	As at 31.12.07 £m	Marks at 31.12.08	Marks at 31.12.07
Whole loans - performing	1,290	2,805	80%	100%
Whole loans - more than 60 days past due	275	372	48%	65%
Total whole loans	**1,565**	**3,177**	**72%**	**94%**
AAA securities	111	735	40%	92%
Other sub-prime securities	818	525	23%	61%
Total securities gross of hedges	**929**	**1,260**	**25%**	**76%**
Hedges		(369)		
Securities (net of hedges)	**929**	**891**		
Residuals		233	0%	24%
Other exposures with underlying sub-prime collateral:				
Derivatives	643	333	87%	100%
Loans	195	346	70%	100%
Real Estate	109	57	46%	68%
Total other direct and indirect exposure	**1,876**	**1,860**		
Total	**3,441**	**5,037**		

The majority of Other US sub-prime exposures are measured at fair value through profit and loss. US sub-prime securities held in conduits and a collateralised debt obligation (CDO) are categorised as available for sale and are recognised in equity.

Exposure declined from £5,037m to £3,441m driven by gross losses of £1,728m and net sales, paydowns and other movements of £1,649m. Weaker Sterling resulted in an increase in exposure of £1,086m. Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American business of £83m in AAA securities and £124m in other US sub-prime securities.

At 31st December 2008, 82% of the whole loan exposure was performing. Whole loans included £1,422m (31st December 2007: £2,843m) acquired on or originated since the acquisition of EquiFirst in March 2007. Of this balance, £281m of new sub-prime loans were originated in 2008. At 31st December 2008, the average loan to value at origination of all the sub-prime whole loans was 79%. Loans guaranteed by Federal Housing Administration (FHA) are not included in the exposure above. An FHA loan is a mortgage loan fully insured by the US Federal Housing Administration and therefore not considered to be a credit sensitive product. EquiFirst has only originated FHA eligible loans since April 2008, and held £132m of these loans at 31st December 2008.

Securities included £37m held by consolidated conduits and £110m held in a CDO on which impairment charges of £16m and £53m respectively have been recorded.

Other exposures with underlying sub-prime collateral include counterparty derivative exposures to vehicles which hold sub-prime collateral. The majority of this exposure was the most senior obligation of the vehicles.

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A3. Alt-A

	As at 31.12.08 £m	As at 31.12.07 £m	Marks at 31.12.08 %	Marks at 31.12.07 %
AAA securities	1,847	3,553	43%	87%
Other Alt-A securities	1,265	208	9%	75%
Whole Loans	776	909	67%	97%
Residuals	2	25	6%	66%
Derivative exposure with underlying Alt-A collateral	398	221	100%	100%
Total	**4,288**	**4,916**		

Alt-A securities, whole loans and residuals are measured at fair value through profit and loss. Alt-A securities held in conduits and a collateralised debt obligation (CDO) are categorised as available for sale and are recognised in equity.

Net exposure to the Alt-A market was £4,288m (31st December 2007: £4,916m), through a combination of whole loans, securities and residuals, including those held in consolidated conduits. There were gross losses of £1,983m in the year and net sales, paydowns and other movements of £181m. Weaker Sterling resulted in an increase in exposure of £1,190m. Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American business of £300m in AAA securities and £324m in other Alt-A securities.

Securities included £491m held by consolidated conduits and £89m held in a CDO on which impairment charges of £65m and £58m respectively have been recorded.

At 31st December 2008, 75% of the Alt-A whole loan exposure was performing, and the average loan to value ratio at origination was 81%.

Other exposures with underlying Alt-A collateral included counterparty derivative exposures to vehicles which hold Alt-A collateral. The majority of this exposure was the most senior obligation of the vehicles.

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Risk Management

A4. US Residential Mortgage Backed Securities Exposure Wrapped by Monoline Insurers

The deterioration in the US residential mortgage market has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection.

The table below shows RMBS assets where we held protection from monoline insurers at 31st December 2008. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £1,639m by 31st December 2008 (2007: £730m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 while 81% of the underlying assets were non-investment grade, 97% are wrapped by monolines with investment grade ratings.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £412m has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cashflow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cashflow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cashflow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs which results in all monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by Credit Rating of Monoline Insurer

	Notional £m	Fair Value of Underlying Asset £m	Fair Value Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
As at 31.12.08					
AAA/AA					
A/BBB	2,567	492	2,075	(473)	1,602
Non-investment grade	74	8	66	(29)	37
Total	**2,641**	**500**	**2,141**	**(502)**	**1,639**
As at 31.12.07					
AAA/AA	**2,807**	**2,036**	**771**	**(41)**	**730**

The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

Rating of Monoline Insurers - As at 31.12.08

	AAA/AA £m	A/BBB £m	Non-Investment Grade £m	Total £m
2005 and earlier		143		143
2006		1,240		1,240
2007 and 2008		510		510
High Grade		**1,893**		**1,893**
Mezzanine - 2005 and earlier		625	74	699
CDO^2 - 2005 and earlier		49		49
US RMBS		**2,567**	**74**	**2,641**

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Risk Management

The notional value of the assets, split by the current rating of the underlying asset, is shown below.

	Rating of Underlying Asset		As at 31.12.08	
	AAA/AA £m	A/BBB £m	Non-Investment Grade £m	Total £m
2005 and earlier	143			143
2006			1,240	1,240
2007 and 2008			510	510
High Grade	**143**		**1,750**	**1,893**
Mezzanine - 2005 and earlier	31	330	338	699
CDO^2 - 2005 and earlier			49	49
US RMBS	**174**	**330**	**2,137**	**2,641**

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Risk Management

B. Commercial Mortgages
Commercial mortgages have increased by 12% in Sterling terms.

B1. Commercial Mortgages
Exposures in Barclays Capital s commercial mortgages portfolio, all of which are measured at fair value, comprised commercial real estate loan exposure of £11,578m (31st December 2007: £11,103m) and commercial mortgage-backed securities (CMBS) of £735m (31st December 2007: £1,296m). During the year there were gross losses of £1,148m. Gross sales and paydowns of £1,034m in the UK and Continental Europe and £2,167m in the US were partially offset by additional drawdowns. Weaker Sterling increased exposure by £3,058m.

The commercial real estate loan exposure comprised 55% US, 41% UK and Europe and 4% Asia. 5% of the total relates to land or property under construction.

The US exposure included two large transactions which comprised 42% of the total US exposure and have paid down approximately £789m in the year. The remaining 58% of the US exposure comprised 76 transactions. The remaining weighted average number of years to initial maturity of the US portfolio is 1.4 years.

The UK and Europe portfolio is well diversified with 64 transactions in place as at 31st December 2008. In Europe protection is provided by loan covenants and periodic LTV retests, which cover 90% of the portfolio. 47% of the German exposure relates to one transaction secured on multifamily residential assets. Exposure to the Spanish market represents less than 1% of global exposure at 31st December 2008.

	As at 31.12.08 £m	As at 31.12.07 £m	Marks at 31.12.08 %	Marks at 31.12.07 %
Commercial Real Estate Exposure by Region				
US	6,329	5,947	88%	99%
Germany	2,467	1,783	95%	100%
Sweden	265	250	96%	100%
France	270	289	94%	100%
Switzerland	176	127	97%	100%
Spain	106	89	92%	100%
Other Continental Europe	677	779	90%	100%
UK	831	1,422	89%	100%
Asia	457	417	97%	100%
Total	**11,578**	**11,103**		

	WALTV[1]	WAM[2]	WALA[3]
Commercial Real Estate Exposure Metrics			
US	79.5%	1.4 yrs	1.6 yrs
Germany	79.4%	4.6 yrs	1.5 yrs
Other Europe	82.2%	4.5 yrs	1.7 yrs
UK	77.8%	5.8 yrs	1.8 yrs

Asia	93.3%	4.7 yrs	1.3 yrs

1 Weighted-average loan- to- value based on the most recent valuation
2 Weighted-average number of years to initial maturity
3 Weighted-average loan age

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	US £m	Germany £m	Other Europe £m	UK £m	Asia £m	Total £m
Commercial Real Estate Exposure by Industry As at 31.12.08						
Office	2,081	436	802	192	145	3,656
Residential	1,957	1,268		229	128	3,582
Retail	66	567	96	110	118	957
Hotels	1,145		441	29	18	1,633
Leisure				233		233
Land	232					232
Industrial	582	126	131	38	10	887
Mixed/Others	243	70	24		38	375
Hedges	23					23
Total	**6,329**	**2,467**	**1,494**	**831**	**457**	**11,578**

	As at 31.12.08 £m	As at 31.12.07 £m	Marks[1] at 31.12.08 %	Marks[1] at 31.12.07 %
Commercial Mortgage Backed Securities (Net of Hedges)				
AAA securities	588	1,008		
Other securities	147	288		
Total	**735**	**1,296**	**21%**	**98%**

Exposure is stated net of hedges traded in the liquid index swap market with market counterparties. The counterparty exposure is managed through a standard derivative collateralisation process and none of the hedge counterparties are monoline insurers.

Exposures at 31st December 2008 included assets acquired from Lehman Brothers North American business of £143m in AAA securities and £86m in other securities.

1 *Marks are based on gross collateral.*

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B2. CMBS Exposure Wrapped by Monoline Insurers

The deterioration in the commercial mortgage market has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection.

The table below shows Commercial Mortgage Backed Security (CMBS) assets where we held protection from monoline insurers at 31st December 2008. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £1,854m by 31st December 2008 (31st December 2007: £197m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 all underlying assets were rated AAA/AA and 89% are wrapped by monolines with investment grade ratings.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £340m has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cashflow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cashflow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cashflow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs which results in all monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by Credit Rating of Monoline Insurer

	Notional £m	Fair Value of Underlying Asset £m	Fair Value Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
As at 31.12.08					
AAA/AA	69	27	42	(4)	38
A/BBB	3,258	1,301	1,957	(320)	1,637
Non-investment grade	425	181	244	(65)	179
Total	**3,752**	**1,509**	**2,243**	**(389)**	**1,854**
As at 31.12.07					
AAA/AA	**3,614**	**3,408**	**206**	**(9)**	**197**

The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

	Rating of Monoline Insurers		As at 31.12.08	
	AAA/AA £m	A/BBB £m	Non-investment Grade £m	Total £m
2005 and earlier		437		437
2006	69	544		613
2007 and 2008		2,277	425	2,702
CMBS	**69**	**3,258**	**425**	**3,752**

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The notional value of the assets split by the current rating of the monoline insurer, is shown below. All CMBS assets were rated AAA/AA at 31st December 2008.

	Rating of underlying asset		As at 31.12 08	
	AAA/AA £m	A/BBB £m	Non-Investment Grade £m	Total £m
2005 and earlier	437			437
2006	613			613
2007 and 2008	2,702			2,702
CMBS	**3,752**			**3,752**

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C. Other Credit Market Exposures

In the year ended 31st December 2008 these exposures increased by 61% in Sterling terms.

C1. Leveraged Finance

Leveraged loans are classified within loans and advances and are stated at amortised cost less impairment. The overall credit performance of the assets remains satisfactory.

At 31st December 2008, the gross exposure relating to leveraged finance loans was £10,506m (31st December 2007: £9,217m). Barclays Capital expects to hold these leveraged finance positions until redemption. Material movements since 31st December 2007 reflect exchange rate changes rather than changes in loan positions.

The net exposure relating to leverage finance loans of £10,391m (31st December 2007: £9,027m) was reduced to £7,335m following a repayment of £3,056m at par in January 2009.

	As at 31.12.08 £m	As at 31.12.07 £m
Leveraged Finance Exposure by Region		
UK	4,810	4,401
US	3,830	3,037
Europe	1,640	1,568
Asia	226	211
Total lending and commitments	**10,506**	**9,217**
Identified and unidentified impairment[1]	(115)	(190)
Net lending and commitments	**10,391**	**9,027**

The industry classification of the exposure was as follows:

	As at 31.12.08			As at 31.12.07		
	Drawn £m	Undrawn £m	Total £m	Drawn £m	Undrawn £m	Total £m
Leveraged Finance Exposure by Industry						
Insurance	2,546	31	2,577	2,456	78	2,534
Telecoms	2,998	211	3,209	2,259	240	2,499
Retail	904	128	1,032	828	132	960
Healthcare	659	144	803	577	141	718
Media	655	89	744	469	127	596
Services	568	131	699	388	134	522
Manufacture	500	102	602	371	125	496

Chemicals	317	26	343	46	286	332
Other	329	168	497	233	327	560
Total	**9,476**	**1,030**	**10,506**	**7,627**	**1,590**	**9,217**

New leveraged finance commitments originated after 30th June 2007 comprised £573m (31st December 2007: £1,148m).

1 *The movement in impairment during the period is primarily due to the release of the provision on the post year end repayment, for which there was a binding commitment as at 31st December 2008.*

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C2. SIVs and SIV-Lites

	As at 31.12.08 £m	As at 31.12.07 £m	Marks at 31.12.08 %	Marks at 31.12.07 %
SIVs/SIV-Lites				
Liquidity facilities	679	466	62%	100%
Bond inventory	11	52	7%	37%
Derivatives	273	266		
Total	**963**	**784**		

SIV exposure increased from £784m to £963m during the year. There were £230m of gross losses against SIVs and SIV lites in the year. Weaker Sterling resulted in an increase in exposure of £281m.

At 31st December 2008 liquidity facilities of £679m (31st December 2007: £466m) include £531m designated at fair value through profit and loss relating to a SIV-lite which had previously been hedged with Lehman Brothers. Following the Lehman Brothers bankruptcy this facility was reflected as a new exposure to the underlying assets. The remaining £148m represented drawn liquidity facilities in respect of SIV-lites and other structured investment vehicles classified as loans and advances stated at cost less impairment.

Bond inventory and derivatives are fair valued through profit and loss.

Movement in derivative exposure primarily related to CDS exposure due to general spread widening. At 31st December 2008 exposure was broadly in line with the prior year.

C3. CDPC Exposure

Credit derivative product companies (CDPCs) are specialist providers of credit protection principally on corporate exposures in the form of credit derivatives. The Group has purchased protection from CDPCs against a number of securities with a notional value of £1,772m. The fair value of the exposure to CDPCs at 31st December 2008 was £150m. There were £14m of gross losses in the year.

Of the notional exposure, 45% related to AAA/AA rated counterparties, with the remainder rated A/BBB.

Exposure by Credit Rating of CDPC

	Notional £m	Gross Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
As at 31.12.08				
AAA/AA	796	77	(14)	63
A/BBB	976	87		87
Total	**1,772**	**164**	**(14)**	**150**

As at 31.12.07			
AAA/AA	**1,262**	**19**	**19**

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C4. CLO and Other Exposure Wrapped by Monoline Insurers

The table below shows Collateralised Loan Obligations (CLOs) and other assets where we held protection from monoline insurers at 31st December 2008. The deterioration in markets for these assets has resulted in exposure to monoline insurers and other financial guarantors that provide credit protection. These are measured at fair value through profit and loss. Declines in fair value of the underlying assets are reflected in increases in the value of potential claims against monoline insurers. Such declines have resulted in net exposure to monoline insurers under these contracts increasing to £4,939m by 31st December 2008 (31st December 2007: £408m).

Claims would become due in the event of default of the underlying assets and losses would only be realised if both the underlying asset and monoline defaulted. At 31st December 2008 all of the underlying assets have investment grade ratings and 39% are wrapped by monolines rated AAA/AA. 87% of the underlying assets were CLOs, all of which were rated AAA/AA.

There is some uncertainty whether all of the monoline insurers would be able to meet all liabilities if such claims were to arise: certain monoline insurers have been subject to downgrades in 2008. Consequently, a fair value loss of £737m, has been recognised in the year. There have been no claims due under these contracts as none of the underlying assets were in default at 31st December 2008.

The fair value is determined by a credit valuation adjustment calculation which incorporates stressed cashflow shortfall projections, current market valuations, stressed Probability of Default (PDs) and a range of Loss Given Default (LGD) assumptions. The cashflow shortfall projections are stressed to ensure that we consider the potential for further market deterioration and resultant additional cashflow shortfall in underlying collateral. Monoline ratings are based on external ratings analysis and where appropriate significant internal analysis conducted by the independent Credit Risk function. In addition, we reflect the potential for further deterioration of monolines by using stressed PDs for non-AAA rated monolines, which results in all other monolines having an implied sub-investment grade rating. LGDs range from 45% to 100% depending on the monoline.

Exposure by Credit Rating of Monoline Insurer

	Notional £m	Fair Value of Underlying Asset £m	Fair Value Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
As at 31.12.08					
AAA/AA	8,281	5,854	2,427	(55)	2,372
A/BBB	6,446	4,808	1,638	(204)	1,434
Non-investment grade	6,148	4,441	1,707	(574)	1,133
Total	**20,875**	**15,103**	**5,772**	**(833)**	**4,939**
As at 31.12.07					
AAA/AA	**15,152**	**14,735**	**417**	**(9)**	**408**

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The notional value of the assets, split by the current rating of the monoline insurer, is shown below.

	Rating of Monoline Insurer - As at 31.12.08			
	AAA/AA £m	A/BBB £m	Non-investment grade £m	Total £m
2005 and earlier	2,064	1,647	2,326	6,037
2006	1,803	2,173	1,918	5,894
2007 and 2008	3,324	1,369	1,602	6,295
CLOs	**7,191**	**5,189**	**5,846**	**18,226**
2005 and earlier	131	661	70	862
2006	145	158	232	535
2007 and 2008	814	438		1,252
Other	**1,090**	**1,257**	**302**	**2,649**
Total	**8,281**	**6,446**	**6,148**	**20,875**

The notional value of the assets split by the current rating of the underlying asset is shown below. All of the underlying assets had investment grade ratings as at 31st December 2008.

	Rating of Underlying Asset - As at 31.12.08			
	AAA/AA £m	A/BBB £m	Non-investment grade £m	Total £m
2005 and earlier	6,037			6,037
2006	5,894			5,894
2007 and 2008	6,295			6,295
CLOs	**18,226**			**18,226**
2005 and earlier	862			862
2006	535			535
2007 and 2008	785	467		1,252
Other	**2,182**	**467**		**2,649**
Total	**20,408**	**467**		**20,875**

Own Credit

The carrying amount of issued notes that are designated under the IAS 39 fair value option is adjusted to reflect the effect of changes in own credit spreads. The resulting gain or loss is recognised in the income statement.

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

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Credit Risk

Loans and Advances to Customers and Banks

Total loans and advances to customers and banks net of impairment allowance grew 32% to £542,118m. Loans and advances at amortised cost were £509,522m (2007: £385,518m) and loans and advances at fair value were £32,596m (2007: £25,271m).

Loans and Advances at Amortised Cost

	Gross Loans & Advances £m	Impairment Allowance £m	Loans & Advances Net of Impairment £m	Credit Risk Loans £m	CRLs % of Gross Loans & Advances %	Impairment Charge £m	Loan Loss Rates bp
As at 31.12.08							
Wholesale - customers	266,750	2,784	263,966	8,144	3.1%	2,540	95
Wholesale - banks	47,758	51	47,707	48	0.1%	40	8
Total wholesale	**314,508**	**2,835**	**311,673**	**8,192**	**2.6%**	**2,580**	**82**
Retail - customers	201,588	3,739	197,849	7,508	3.7%	2,333	116
Total retail	**201,588**	**3,739**	**197,849**	**7,508**	**3.7%**	**2,333**	**116**
Total	**516,096**	**6,574**	**509,522**	**15,700**	**3.0%**	**4,913**	**95**
As at 31.12.07							
Wholesale - customers	187,086	1,309	185,777	5,157	2.8%	1,190	64
Wholesale - banks	40,123	3	40,120			(13)	(3)
Total wholesale	**227,209**	**1,312**	**225,897**	**5,157**	**2.3%**	**1,177**	**52**
Retail - customers	162,081	2,460	159,621	4,484	2.8%	1,605	99
Total retail	**162,081**	**2,460**	**159,621**	**4,484**	**2.8%**	**1,605**	**99**
Total	**389,290**	**3,772**	**385,518**	**9,641**	**2.5%**	**2,782**	**71**

Gross loans and advances to customers and banks at amortised cost grew 33% to £516,096m (31st December 2007: £389,290m).

The principal driver in the wholesale portfolio was Barclays Capital which grew by £72,514m (53%). This was driven by a decline in the value of Sterling relative to other currencies, increased draw downs on existing corporate lending facilities and the extension of new loans to corporate clients at current terms. Additionally, continuing market volatility resulted in increased cash collateral being placed with clients relating to OTC derivatives.

The principal drivers in the retail portfolio were: GRCB Western Europe, which grew £14,436m (59%) as a result of growth in new personal products and currency movements, and UK Retail Banking, which grew £12,319m (15%), principally in the Home Finance business.

Credit risk loans rose 63% to £15,700m (31st December 2007: £9,641m). As a percentage of gross loans and advances, credit risk loans rose to 3.0% (31st December 2007: 2.5%). CRL balances were higher in all businesses as credit conditions deteriorated across Barclays areas of operations. The most notable increases were in Barclays Capital, the international businesses in Global Retail & Commercial Banking, and the UK home finance portfolios.

Risk Management

Impairment charges on loans and advances increased 77% (£2,131m) to £4,913m (2007: £2,782m), and included charges of £1,763m against ABS CDO Super Senior and other credit market exposures. Further analysis of these charges is provided on pages 63, 64 and 78.

Impairment charges on loans and advances as a percentage of period-end Group total loans and advances (loan loss rate) increased to 95bp (2007: 71bp).

In the wholesale and corporate portfolios, impairment charges on loans and advances rose 119% (£1,403m) to £2,580m (31st December 2007: £1,177m). Gross loans and advances rose 38% to £314,508m (31st December 2007: £227,209m). The loan loss rate on the wholesale and corporate portfolio rose to 82bp (2007: 52bp).

In the retail portfolios, impairment charges on loans and advances rose 45% (£728m) to £2,333m (2007: £1,605m), principally as a consequence of increased impairment in the international portfolios, whilst gross loans and advances increased 24% to £201,588m (31st December 2007: £162,081m). The retail loan loss rate increased to 116bp (2007: 99bp).

Impairment allowances increased 74% to £6,574m (31st December 2007: £3,772m). The Group s CRL coverage ratio increased to 41.9% (31st December 2007: 39.1%). The most significant drivers were higher coverage of ABS CDO super senior CRLs, offset by an increase in CRLs in well-secured home loan portfolios, and in the general corporate portfolio where the recovered outlook is relatively high, and increased early-cycle delinquent balances in retail unsecured portfolios. The Group s PCRL coverage ratio also increased to 36.2% (31st December 2007: 33.0%), see page 65 for more detail.

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Wholesale Credit Risk

Gross loans and advances to wholesale customers and banks grew 38% to £314,508m (31st December 2007: £227,209m), largely due to Barclays Capital where loans and advances increased £72,514m (53%).

Credit Risk Loans (CRLs) rose 59% to £8,192m (31st December 2007: £5,157m). As a percentage of gross loans and advances, CRLs increased 13% to 2.6% (31st December 2007: 2.3%). CRL balances were higher in all businesses, reflecting the downturn in economic conditions, with some deterioration across default grades, higher levels of Early Warning List balances and a rise in impairment and loan loss rates in most wholesale portfolios. The largest rises were in Barclays Capital and GRCB Western Europe.

Impairment charges on loans and advances rose 119% (£1,403m) to £2,580m (31st December 2007: £1,177m), primarily in Barclays Capital, although all other businesses were higher than the previous year. Impairment in Barclays Commercial Bank rose in both the Larger and Medium Business divisions. Deterioration in the Spanish commercial and residential property markets led to higher impairment in GRCB Western Europe, while in GRCB Absa, wholesale credit impairment began to rise from a low base and credit indicators began to show deterioration. The loan loss rate on the wholesale and corporate portfolio rose to 82bp (2007: 52bp).

In the wholesale and corporate portfolios impairment allowances increased 116% to £2,835m (31st December 2007: £1,312m).

Wholesale Loans and Advances to Customers and Banks

	Gross Loans and Advances £m	Impairment Allowance £m	Loans and Advances Net of Impairment £m	Credit Risk Loans £m	CRLs % of Gross Loans and Advances %	Impairment Charge £m	Loan Loss Rates bp
As at 31.12.08							
BCB	68,904	504	68,400	1,181	1.7%	414	60
Barclaycard	301	2	299	20	6.6%	11	365
GRCB WE	15,432	232	15,200	578	3.7%	125	81
GRCB EM	7,551	122	7,429	191	2.5%	36	48
GRCB Absa	8,648	140	8,508	304	3.5%	19	22
Barclays Capital	208,596	1,796	206,800	5,743	2.8%	1,936	93
BGI	834		834				
Barclays Wealth	3,282	28	3,254	174	5.3%	28	85
Head Office	960	11	949	1	0.1%	11	115
Total	**314,508**	**2,835**	**311,673**	**8,192**	**2.6%**	**2,580**	**82**
As at 31.12.07							
BCB	65,535	483	65,052	956	1.5%	292	45
Barclaycard	295	3	292	17	5.8%	9	305
GRCB WE	10,927	63	10,864	93	0.9%	19	17
GRCB EM	4,833	79	4,754	119	2.5%	10	21
GRCB Absa	5,321	112	5,209	97	1.8%	11	21

Barclays Capital	136,082	514	135,568	3,791	2.8%	833	61
BGI	211		211				
Barclays Wealth	2,745	7	2,738	47	1.7%		
Head Office	1,260	51	1,209	37	2.9%	3	24
Total	**227,209**	**1,312**	**225,897**	**5,157**	**2.3%**	**1,177**	**52**

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Barclays largest corporate loan portfolios continue to be in Barclays Capital and Barclays Commercial Bank. Barclays Capital s corporate loan book grew 43% to £72,796m, driven by the decline in the value of Sterling relative to other currencies as well as draw downs on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions. Loans and advances at amortised cost grew 5% in Barclays Commercial Bank and was focused in lower-risk portfolios in Larger Business.

Portfolio growth rates were higher in the international businesses, where GRCB s wholesale portfolios in Western Europe, Emerging Markets and Absa grew by 40%, 56% and 63%, respectively.

Analysis of Wholesale Loans and Advances Net of Impairment Allowances

	Corporate		Government		Settlement Balances & Cash Collateral		Other Wholesale		Total Wholesale	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Wholesale										
BCB	67,741	64,773	659	279					68,400	65,052
Barclaycard	299	292							299	292
GRCB WE	15,017	10,721	32	4			151	139	15,200	10,864
GRCB EM	5,283	3,276	1,709	1,193			437	285	7,429	4,754
GRCB Absa	8,480	5,204	28	5					8,508	5,209
Barclays Capital	72,796	51,038	3,760	1,220	79,418	46,639	50,826	36,671	206,800	135,568
BGI	834	211							834	211
Barclays Wealth	3,254	2,738							3,254	2,738
Head Office	949	1,209							949	1,209
Total	**174,653**	**139,462**	**6,188**	**2,701**	**79,418**	**46,639**	**51,414**	**37,095**	**311,673**	**225,897**

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Analysis of Barclays Capital Wholesale Loans and Advances Net of Impairment Allowances

	Gross Loans & Advances £m	Impairment Allowance £m	Loans and Advances Net of Impairment £m	Credit Risk Loans £m	CRLs % of Gross Loans & Advances %	Impairment Charge £m	Loan Loss Rates bp
As at 31.12.08							
Loans & Advances Bank							
Cash collateral & settlement balances	19,264		19,264				
Interbank lending	24,086	51	24,035	48	0.2%	40	17
Loans & Advances to Customers							
Corporate lending	77,042	486	76,556	1,100	1.4%	305	40
ABS CDO Super Senior	4,117	1,013	3,104	4,117	100.0%	1,383	3,359
Other wholesale lending	23,933	246	23,687	478	2.0%	208	87
Cash collateral and settlement balances	60,154		60,154				
Total	**208,596**	**1,796**	**206,800**	**5,743**	**2.8%**	**1,936**	**93**

Barclays Capital wholesale loans and advances increased 53% to £208,596m (2007: £136,082m). This was driven by a decline in the value of Sterling relative to other currencies, increased drawdowns on existing corporate lending facilities and the extension of new loans to corporate clients at current terms. Additionally, continuing market volatility resulted in increased cash collateral being placed with clients relating to OTC derivatives.

The corporate lending portfolio, including leveraged finance, increased 47% to £76,556m (2007: £52,258) primarily due to draw downs on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions.

Included within corporate lending and other wholesale lending portfolios are £7,674m of loans backed by retail mortgage collateral.

Barclays Capital Loans and Advances Held at Fair Value

Barclays Capital loans and advances held at fair value were £19,630m (2007: £18,259m). These assets are primarily made up of US RMBS whole loans and commercial real estate loans, £14,429m of which is discussed within the credit market exposures.

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Analysis of Barclays Commercial Bank Loans and Advances

The tables below analyses the industry split of Barclays Commercial Bank loans and advances after impairment allowance of £504m. The loan book consists of both loans and advances held at amortised cost and loans and advances held at fair value.

	Total £m
Loans and Advances to Banks at Amortised Cost	
Financial institutions services	867
Total	**867**

	Total £m
Loans and Advances to Customers at Amortised Cost	
Business and other services	16,611
Construction	3,974
Energy and water	1,112
Financial institutions and services	6,427
Finance Lease receivables	6,644
Manufacturing	8,378
Postal and communications	1,303
Property	8,985
Transport	2,014
Wholesale and retail distribution and leisure	11,426
Government	659
Total	**67,533**

	Total £m
Loans and Advances Held at Fair Value	
Business and other services	535
Construction	39
Financial institutions and services	32
Property	7,366
Government	4,994
Total	**12,966**

Loans and advances held at fair value were £12,966m as at 31st December 2008. Of these, £12,360m related to Government, Local Authority and Social Housing. Fair value exceeds amortised cost by £3,018m. Fair value is calculated using a valuation model with reference to observable market inputs and is matched by offsetting fair value movements on hedging instruments.

Property balances within loans and advances at amortised cost and held at fair value totalled £16,351m, of which £8,795m related to social housing.

The weighted average of the drawn balance loss given default, for all of the above loans and advances, is 31%.

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Barclays Commercial Bank Financial Sponsor Leveraged Finance

As at 31st December 2008, the exposure relating to Financial Sponsor related leveraged finance loans in Barclays Commercial Bank was £2,445m, of which £1,875m related to drawn amounts recorded in loans and advances.

	As at 31.12.08 £m
Leveraged Finance Exposure by Region	
UK	2,111
Europe	323
Other	11
Total lending and commitments	**2,445**
Underwriting	28
Total exposure	**2,473**

The industry classification of the exposure was as follows:

	Drawn £m	Undrawn £m	Total £m
Leveraged Finance Exposure by Industry - As at 31.12.08			
Business and other services	1,083	288	1,371
Construction	12	5	17
Energy and water	43	17	60
Financial institutions and services	58	10	68
Manufacturing	307	130	437
Postal and communications	35	2	37
Property	26	5	31
Transport	14	43	57
Wholesale and retail distribution and leisure	297	70	367
Total exposure	**1,875**	**570**	**2,445**

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Retail Credit Risk

Gross Loans and Advances to retail customers grew 24% to £201,588m (31st December 2007: £162,081m). The principal drivers were GRCB Western Europe, UK Retail Banking, and Barclaycard. The GRCB Western Europe retail portfolio grew by £14,436m (59%) to £38,918m, largely driven by Home Loans in Spain and Italy, and the appreciation in the value of the Euro against Sterling. The UK Retail Banking portfolio increased by £12,319m (15%) to £96,083m, primarily driven by UK Home Loans. The Barclaycard Retail portfolios grew by £8,866m (43%) to £29,390m, with growth across the US, UK and Western European card portfolios.

Credit Risk Loans rose 67% to £7,508m (31st December 2007: £4,484m). As a percentage of gross loans and advances, Credit Risk Loans increased to 3.7% (31st December 2007: 2.8%). CRL balances were higher in all businesses as credit conditions deteriorated across Barclays areas of operations. The most notable increases were in the international businesses in GRCB, particularly Absa.

Impairment charges on loans and advances increased 45% (£728m) to £2,333m (2007: £1,605m), mainly due to adverse performances in the international portfolios, partially offset by improvement in some UK portfolios. Impairment charges on loans and advances as a percentage of period-end retail loans and advances (loan loss rate) increased to 116bp (2007: 99bp).

Impairment allowances increased 52% to £3,739m (31st December 2007: £2,460m). The CRL coverage ratio decreased to 49.8% (31st December 2007: 54.9%). The PCRL coverage ratio also decreased to 46.7% (31st December 2007: 49.4%).

Retail Loans and Advances to Customers Net of Impairment Allowances

	Gross Loans & Advances £m	Impairment Allowance £m	Loans & Advances Net of Impairment £m	Credit Risk Loans £m	CRLs % of Gross Loans & Advances %	Impairment Charge £m	Loan Loss Rates bp
As at 31.12.08							
UKRB	96,083	1,134	94,949	2,403	2.5%	602	63
Barclaycard	29,390	1,677	27,713	2,566	8.7%	1,086	370
GRCB WE	38,918	302	38,616	794	2.0%	171	44
GRCB EM	4,083	191	3,892	179	4.4%	130	318
GRCB Absa	24,677	411	24,266	1,518	6.2%	328	133
Barclays Wealth	8,437	24	8,413	48	0.6%	16	19
Total	**201,588**	**3,739**	**197,849**	**7,508**	**3.7%**	**2,333**	**116**
As at 31.12.07							
UKRB	83,764	1,005	82,759	2,063	2.5%	559	67
Barclaycard	20,524	1,093	19,431	1,601	7.8%	818	399
GRCB WE	24,482	81	24,401	250	1.0%	57	23
GRCB EM	1,881	44	1,837	67	3.6%	29	154
GRCB Absa	24,994	235	24,759	499	2.0%	135	54
Barclays Wealth	6,436	2	6,434	4	0.1%	7	11
Total	**162,081**	**2,460**	**159,621**	**4,484**	**2.8%**	**1,605**	**99**

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Total home loans to retail customers grew by 27% to £135,077m, driven by the 58% rise in GRCB Western Europe, reflecting currency movements and book growth. The UK home finance portfolios within UK Retail Banking grew 18% to £82,303m (31st December 2007: £69,805m).

Unsecured retail credit (credit card and unsecured loans) portfolios grew 43% to £38,856m, (31st December 2007: £27,256m), principally as a result of growth in Barclaycard US and GRCB Western Europe as well as the acquisition of Goldfish in the UK.

Analysis of Retail Loans and Advances Net of Impairment Allowances

	Home Loans		Cards and Unsecured Loans		Other Retail		Total Retail	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
UKRB	82,303	69,805	8,294	8,297	4,352	4,657	94,949	82,759
Barclaycard			23,224	14,930	4,489	4,501	27,713	19,431
GRCB WE	33,760	21,393	4,395	2,660	461	348	38,616	24,401
GRCB EM	603	285	2,900	1,369	389	183	3,892	1,837
GRCB Absa	18,411	15,136	43		5,812	9,623	24,266	24,759
Barclays Wealth					8,413	6,434	8,413	6,434
Total	**135,077**	**106,619**	**38,856**	**27,256**	**23,916**	**25,746**	**197,849**	**159,621**

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Home Loans

The Group s principal home loans portfolios continue to be in the UK Retail Banking Home Finance business (61% of the Group s total), GRCB Western Europe (25%) primarily Spain, and South Africa (14%). During the year, the Group managed the risk profile of these portfolios by strengthening underwriting criteria and reducing the maximum loan to value (LTV) ratios, with greater discrimination between purchases and remortgages and, within the UK buy to let (BTL) segment, between portfolio customers and single property investors.

Credit quality of the principal Home Loan portfolios reflected relatively low levels of high LTV lending. Using current valuations, the LTV of the portfolios as at 31st December 2008 was 40% for UK Home Finance, 48% for Spain and 41% for South Africa. The average LTV for new mortgage business during 2008 at origination was 47% for UK Home Finance, 63% for Spain and 58% for South Africa. The percentage of balances with an LTV of over 85% based on current values was 10% for UK Home Finance, 5% for Spain and 25% for South Africa. In the UK, BTL mortgages comprised 6.8% the total stock.

Impairment charges rose across the home loans portfolios, reflecting the impact of lower house prices as well as some increase in arrears rates. Three-month arrears as at 31st December 2008 were 0.91% for UK mortgages, 0.76% for Spain and 2.11% for South Africa. To support the Group s risk profile, we increased collections staff across the businesses and improved operational practices to boost effectiveness.

Home Loans Distribution of Balances by Loan to Value (Current Valuations)[1]

	UK		Spain		South Africa	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
<= 75%	78.2%	90.1%	86.7%	92.2%	60.5%	68.6%
> 75% & <= 80%	6.1%	4.7%	4.8%	4.2%	7.5%	7.2%
> 80% & <= 85%	5.5%	2.5%	3.7%	1.6%	7.2%	7.1%
> 85% & <= 90%	4.5%	1.5%	1.6%	0.7%	7.6%	5.9%
> 90% & <= 95%	2.5%	0.9%	1.3%	0.6%	6.7%	6.1%
> 95%	3.1%	0.3%	1.9%	0.7%	10.5%	5.1%
MTM LTV %	40%	34%	48%	45%	41%	38%
Avg. LTV on New Mortgages	47%	49%	63%	63%	58%	59%

Home Loans Three-Month Arrears[2]

	As at 31.12.08 %	As at 30.06.08 %	As at 31.12.07 %
UK	0.91%	0.70%	0.63%
Spain	0.76%	0.46%	0.24%
South Africa	2.11%	0.96%	0.25%

1 *Based on the following portfolios: UK: UKRB Residential Mortgage and Buy to Let portfolios Spain: GRCB Western Europe Spanish retail home finance portfolio South Africa: GRCB Absa retail home finance portfolio.*

2 *Defined as total 90 day + delinquent balances as a percentage of outstandings.*

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Credit Cards and Unsecured Loans

The Group s largest card and unsecured loan portfolios are in the UK (47% of Group total). The US accounts for 19%, where Barclaycard s portfolio is largely Prime credit quality (FICO score of 660 or more). To address the impact of economic deterioration and the impact of weaker labour markets on the unsecured portfolios in 2008, the Group used a range of measures to improve new customer quality and control the risk profile of existing customers.

In the UK Cards portfolio, initial credit lines were made more conservative, followed by selective credit limit increases using more accurately assessed customer behaviour. The overall number of credit limit increases were reduced by strengthening qualification criteria and a proportion of higher-risk dormant accounts were closed. Arrears rates in the UK Cards portfolio fell slightly during the year, reflecting measures taken to improve customer quality in 2007 and 2008. Repayment Plan balances grew to support government initiatives to supply relief to customers experiencing financial difficulty. Payment rates in repayment plans remained relatively stable.

As a percentage of the portfolio, three-month arrears rates rose during 2008 to 1.87% for UK Loans and 2.15% for US Cards. The rate reduced to 1.28% at UK Cards.

Unsecured Lending 3 Month Arrears[1]

	As at 31.12.08 %	As at 30.06.08 %	As at 31.12.07 %
UK Cards[2]	1.28%	1.36%	1.36%
UK Loans[3]	1.87%	1.40%	1.35%
US Cards[4]	2.15%	2.08%	1.83%

1 Defined as total 90 day + delinquent balances as a percentage of outstandings. Excludes legal and repayment plans.
2 UK Cards now based on Barclaycard branded cards, excluding Goldfish.
3 UK Loans based on Barclayloan.
4 Excludes Business Card and US Airways portfolios.

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Impairment Charges and Other Credit Provisions

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
UK Retail Banking	602	559
Barclays Commercial Bank	414	292
Barclaycard	1,097	827
GRCB - Western Europe	296	76
GRCB - Emerging Markets	166	39
GRCB - Absa	347	146
Barclays Capital	419	64
Barclays Wealth	44	7
Head Office Functions & Other Operations	11	3
Group Total	**3,396**	**2,013**
ABS CDO Sub-Prime & Other Credit Market Provisions	1,763	782
Group Total (Including ABS CDO)	**5,159**	**2,795**
Other AFS Assets & Reverse Repos	260	
Group Total (Including ABS CDO & AFS/Reverse Repos)	**5,419**	**2,795**

Global Retail and Commercial Banking

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

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

The impairment charge in **Barclaycard** increased £270m (33%) to £1,097m (2007: £827m) reflecting higher charges in Barclaycard International portfolios, particularly Barclaycard US which was driven by loan growth, rising delinquency due to deteriorating economic conditions and exchange rate movements; and £68m from the inclusion of Goldfish. These factors were partially offset by lower charges in UK Cards and secured consumer lending.

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

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

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

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Investment Banking and Investment Management

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

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

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

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Potential Credit Risk Loans and Coverage Ratios

	CRLs		PPLs		PCRLS	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	2,783	1,474	280	317	3,063	1,791
Retail Unsecured and other	4,725	3,010	217	183	4,942	3,193
Retail	**7,508**	**4,484**	**497**	**500**	**8,005**	**4,984**
Corporate/Wholesale (excl ABS)	4,075	1,813	1,959	496	6,034	2,309
Group (excl ABS)	**11,583**	**6,297**	**2,456**	**996**	**14,039**	**7,293**
ABS CDO Super Senior	4,117	3,344		801	4,117	4,145
Group	**15,700**	**9,641**	**2,456**	**1,797**	**18,156**	**11,438**

	Impairment Allowance		CRL Coverage		PCRL Coverage	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	561	320	20.2%	21.7%	18.3%	17.9%
Retail Unsecured and other	3,178	2,140	67.3%	71.1%	64.3%	67.0%
Retail	**3,739**	**2,460**	**49.8%**	**54.9%**	**46.7%**	**49.4%**
Corporate/Wholesale (excl ABS)	1,822	1,022	44.7%	56.4%	30.2%	44.3%
Group (excl ABS)	**5,561**	**3,482**	**48.0%**	**55.3%**	**39.6%**	**47.7%**
ABS CDO Super Senior	1,013	290	24.6%	8.7%	24.6%	7.0%
Group	**6,574**	**3,772**	**41.9%**	**39.1%**	**36.2%**	**33.0%**

Credit Risk Loans

Credit risk loans (CRLs) rose 63% to £15,700m (2007: £9,641m). Balances were higher in all businesses as credit conditions deteriorated across Barclays areas of operations and mirrored the overall growth in loans and advances. The most notable increases were in Barclays Capital and the non-UK businesses in Global Retail and Commercial Banking.

CRLs in retail secured mortgage products increased by £1,309m (89%) to £2,783m (2007: £1,474m). The key driver was Absa Home Finance where balances increased significantly as a result of higher interest rates and increasing consumer indebtedness. Increases were also seen in UK Home Finance, reflecting weakening UK house prices and the slowing economy, and in Spain, as economic conditions deteriorated.

CRLs in the unsecured and other retail portfolios increased by £1,715m (57%) to £4,725m (2007: £3,010m). The key drivers for this increase were: Absa, which was impacted by higher interest rates and increasing consumer indebtedness, Barclaycard US, due to deteriorating credit conditions which resulted in rising delinquency rates, asset growth and exchange rate movements, and in Spain, as economic conditions deteriorated and consumer indebtedness increased.

Corporate/Wholesale CRLs increased by £3,035m (59%) to £8,192m (2007: £5,157m). Corporate/Wholesale CRLs, excluding ABS CDO Super Senior positions of £4,117m, increased by £2,262m (125%) to £4,075m (2007: £1,813m). The key drivers were in Barclays Capital, following a number credit downgrades, increasing default probabilities and Spain, primarily due to increases to the property-related names. Balances also increased in Barclays Commercial Bank and Absa Commercial and Banking Business as corporate credit conditions deteriorated, particularly in the last quarter of 2008.

CRLs on ABS CDO Super Senior positions increased £773m (23%) to £4,117m (2007: £3,344m). The majority of this increase resulted from a migration of assets, totalling £801m, from potential problem loans (PPLs) to CRLs.

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Potential Problem Loans

Balances within the Group s potential problem loans (PPLs) category rose by £659m to £2,456m (31st December 2007: £1,797m). The principal movements were in the corporate and wholesale portfolios, where PPLs rose £1,463m to £1,959m (31st December 2007: £496m) as credit conditions deteriorated. This rise was offset by a fall in PPLs relating to ABS CDO positions, as those balances moved into the CRL category. Broadly flat PPLs from retail portfolios reflected methodology alignments affecting the South African portfolio which transferred balances of just over £200m previously reported as PPLs to CRLs. This was offset by rises in UK Retail Banking, GRCB Western Europe and GRCB Emerging Markets.

Potential Credit Risk Loans

Combining CRLs and PPLs, total potential credit risk loans (PCRL) balances in the corporate and wholesale portfolios increased by 161% to £6,034m (31st December 2007: £2,309m) as a number of names migrated into the CRL and PPL categories, reflecting higher default probabilities in the deteriorating global wholesale environment. PCRLs relating to ABS CDO positions remained stable at £4,117m (31st December 2007: £4,145m).

Total retail PCRL balances increased 61% to £8,005m (31st December 2007: £4,984m) as delinquency rates rose across a number of secured and unsecured portfolios following a deterioration in credit conditions, particularly in the UK, US, Spain and South Africa.

Group PCRL balances rose 59% to £18,156m (31st December 2007: £11,438m). Excluding ABS CDO Super Senior positions of £4,117m, PCRLs increased 92% to £14,039m (31st December 2007: £7,293m).

Impairment Allowances and Coverage Ratios

Impairment allowances increased 74% to £6,574m (31st December 2007: £3,772m). Excluding allowances for ABS CDO Super Senior positions of £1,013m, allowances increased by 60% to £5,561m (31st December 2007: £3,482m). Allowances increased in all businesses as credit conditions deteriorated, but most notably in Barclays Capital and GRCB international businesses.

Reflecting this 74% rise in impairment allowance compared with the 63% rise in total CRLs, the Group s CRL coverage ratio rose to 41.9% (31st December 2007: 39.1%). Coverage ratios for PCRLs also rose, to 36.2% (31st December 2007: 33.0%).

The largest driver for these increases was the near four-fold increase in the impairment held against ABS CDO Super Senior positions as the LGD of these assets increased.

Allowance coverage ratios of CRLs and PCRLs excluding allowances for the drawn ABS CDO Super Senior positions of £1,013m decreased to 48.0% (31st December 2007: 55.3%) and 39.6% (31st December 2007: 47.7%), respectively. These movements in coverage ratios reflected:

- An increase in CRLs and PCRLs in the well-secured home loan portfolios.

- Higher CRLs and PCRLs in the corporate sector, where the recovery outlook is relatively high.

Increased early-cycle delinquent balances in the retail unsecured portfolios, as credit conditions worsened. These earlier-cycle balances, which tend to attract relatively lower impairment requirements, have increased as a proportion of the total delinquent balances.

The decrease in the PCRL coverage ratio, excluding the allowances for drawn ABS CDO Super Senior positions of £1,013m, was also driven by the overall increase in the PPLs as a proportion of total PCRLs. Since, by definition, PPLs attract lower levels of impairment than CRLs, a higher proportion of PPLs in total PCRLs will tend to lower the overall coverage ratio.

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Risk Tendency

Risk tendency is a statistical estimate of average expected loss levels for a rolling 12-month period based on averages in the range of possible losses expected, differing from impairment where there must be objective evidence of incurred impairment as at the balance sheet date, and applies to credit exposures not reported as credit risk loans.

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

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Risk Tendency		
UK Retail Banking	520	470
Barclays Commercial Bank	400	305
Barclaycard	1,475	955
GRCB - Western Europe	270	135
GRCB - Emerging Markets	350	140
GRCB - Absa	255	190
Barclays Capital	415	140
Barclays Wealth	20	10
Head Office Functions & Other Operations	5	10
Group total	**3,710**	**2,355**

Risk Tendency increased 58% (£1,355m) to £3,710m (31st December 2007: £2,355m), compared with 32% growth in the Group s loans and advances balances. This was reflective of the higher credit risk profile, weakening credit conditions across our main businesses, and changing mix, as a consequence of planned growth, in a number of businesses and portfolios. Risk Tendency in 2008 also increased as a result of the weakening of Sterling against a number of other foreign currencies, including the US Dollar and the Euro.

UK Retail Banking Risk Tendency increased £50m to £520m (31st December 2007: £470m). This reflected a higher risk profile in the unsecured and secured loans portfolios, weakening UK credit conditions, and asset growth, primarily in the Home Finance portfolio.

Risk Tendency in **Barclays Commercial Bank** increased £95m to £400m (31st December 2007: £305m). This reflected the deteriorating UK corporate credit environment and asset growth.

Barclaycard Risk Tendency increased £520m to £1,475m (31st December 2007: £955m) primarily reflecting the inclusion of new business acquisitions (£260m) as well as asset growth, exchange rate movements, and the economic conditions in the US. Risk Tendency in the UK Cards portfolio remained stable as improvements in portfolio quality were offset by deterioration in the UK economic environment.

Risk Tendency at **GRCB - Western Europe** increased £135m to £270m (31st December 2007: £135m) principally reflecting weakening credit conditions across Europe, particularly in Spain, asset growth and movements in the Euro/Sterling exchange rate.

Risk Tendency at **GRCB - Emerging Markets** increased £210m to £350m (31st December 2007: £140m) reflecting weakening credit conditions across the majority of regions, a change in the risk profile following a broadening of the product offering through new product launches and new market entry in India and UAE, and asset growth.

Risk Tendency at **GRCB - Absa** increased £65m to £255m (31st December 2007: £190m) reflecting weakening retail and, to a lesser extent, corporate credit conditions in South Africa and asset growth and movements in the Rand/Sterling exchange rate.

Risk Tendency in **Barclays Capital** increased £275m to £415m (31st December 2007: £140m) reflecting credit downgrades and asset growth. The drawn liquidity facilities on ABS CDO Super Senior positions are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

Risk Tendency at **Barclays Wealth** increased £10m to £20m (31st December 2007: £10m) reflecting a weakening credit risk profile and asset growth.

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Debt Securities and Other Bills

The following table presents an analysis of the credit quality of debt and similar securities, other than loans held within the Group. Securities rated as investment grade amounted to 91.6% of the portfolio (2007: 88.0%).

	Treasury and Other Eligible Bills £m	Debt Securities £m	Total £m	%
As at 31.12.08				
AAA to BBB- (investment grade)	7,314	198,493	205,807	91.6%
BB+ to B	1,233	15,309	16,542	7.4%
B- or lower		2,343	2,343	1.0%
Total	**8,547**	**216,145**	**224,692**	**100.0%**
Of Which Issued By:				
governments and other public bodies	8,547	73,881	82,428	36.7%
US agency		34,180	34,180	15.3%
mortgage and asset-backed securities		34,844	34,844	15.5%
corporate and other issuers		55,244	55,244	24.6%
bank and building society certificates of deposit		17,996	17,996	7.9%
Total	**8,547**	**216,145**	**224,692**	**100.0%**
Of Which Classified As:				
trading portfolio assets	4,544	148,686	153,230	68.2%
financial instruments designated at fair value		8,628	8,628	3.8%
available-for-sale securities	4,003	58,831	62,834	28.0%
Total	**8,547**	**216,145**	**224,692**	**100.0%**
	£m	**£m**	**£m**	**%**
As at 31.12.07				
AAA to BBB- (investment grade)	4,114	189,794	193,908	88.0%
BB+ to B	703	24,693	25,396	11.5%
B- or lower		1,181	1,181	0.5%
Total	**4,817**	**215,668**	**220,485**	**100.0%**
Of Which Issued By:				
governments and other public bodies	4,817	63,798	68,615	31.1%
US agency		13,956	13,956	6.3%
mortgage and asset-backed securities		28,928	28,928	13.1%
corporate and other issuers		88,207	88,207	40.0%
bank and building society certificates of deposit		20,779	20,779	9.5%

Total	**4,817**	**215,668**	**220,485**	**100.0%**
Of Which Classified As:				
trading portfolio assets	2,094	152,778	154,872	70.2%
financial instruments designated at fair value		24,217	24,217	11.0%
available-for-sale securities	2,723	38,673	41,396	18.8%
Total	**4,817**	**215,668**	**220,485**	**100.0%**

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Market Risk

Market Risk is the risk that Barclays earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. The significant majority of Market Risk exposure is in Barclays Capital.

Measurement and Key Risk Controls

Daily Value at Risk (DVaR) is an important market risk control tool and is measured using 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 transparency of the market risk profile. To further improve the control framework, formal daily monitoring of Expected Shortfall (ES) was started. This metric is the average of all the hypothetical losses beyond DVaR.

Other controls, including stress testing and scenario testing, and a large suite of non-DVaR limits such as foreign exchange position limits, option based limits and interest rate delta limits, are also in place.

Analysis of Barclays Capital s Market Risk Exposure

Barclays Capital s 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. The average ES in 2008 was £70.0m, a rise of £34.7m, compared with 2007.

Total DVaR increased significantly in the fourth quarter, mainly due to extreme market volatility following the failure of several financial institutions and a material deterioration in the global economic outlook. Total DVaR (95%) as at 31st December 2008 was £86.6m (31st 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:

	Year Ended 31.12.08			Year Ended 31.12.07		
	Average £m	High[1] £m	Low[1] £m	Average £m	High[1] £m	Low[1] £m
DVaR (95%)						
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	(39.7)			(27.2)		
Total DVaR	**53.4**	**95.2**	**35.5**	**32.5**	**40.9**	**25.2**

	Year Ended 31.12.08			Year Ended 31.12.07		
	Average £m	High[1] £m	Low[1] £m	Average £m	High[1] £m	Low[1] £m
DVaR (98%)						
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	(67.3)			(39.2)		
Total DVaR	**76.5**	**158.8**	**47.5**	**42.0**	**59.3**	**33.1**

1 *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.*

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Risk Management

Liquidity Risk

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: 125%).

Global Retail and Commercial Banking

The sum of liabilities in Global Retail and Commercial Banking, Barclays Wealth and Head Office Functions exceeds assets in those businesses. As a result they have no reliance on wholesale funding. The balance sheet is modelled to reflect behavioural experience in both assets and liabilities, and is managed to maintain a positive cash profile.

	Up to 1yr £bn	1-3yr £bn	3-5yrs £bn	Over 5yrs £bn
Expected Net Cash Inflows (Outflows) on a Behavioural Basis				
As at 31.12.08	20	34	14	(95)

Throughout 2008 GRCB has continued to grow the amount of deposits despite competitive pressures.

	As at 31.12.06 £bn	As at 31.06.07 £bn	As at 31.12.07 £bn	As at 31.06.08 £bn	As at 31.12.08 £bn
GRCB Deposit Balances					
Total customer deposits	190	200	211	218	235

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.

	Asset Managers %	Banks %	Corporates %	Money Funds %	Govts %	Central Banks %
Wholesale Depositor Split By Counterparty Type						
As at 31.12.08	30%	23%	4%	27%	11%	5%

	North America %	UK %	Europe %	Japan %	Far East (excl Japan) %	Emerging Markets %	Supra-National %
Wholesale Depositor Split By Geography							
As at 31.12.08	44%	14%	22%	9%	3%	7%	1%

Unsecured Funding

Additionally, unsecured funding is managed within specific term limits. The term of unsecured liabilities has been extended, with average life improving by 5 months from 8 months at the end of December 2007 to 13 months at the end of December 2008

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Risk Management

Our capital markets debt issuance includes issues of senior and subordinated debt in US registered offerings and medium term note programmes and European medium term note programs. Substantially all of our unsecured senior issuance is without covenants that trigger increased cost or accelerate maturity. Furthermore, between September and December 2008 we issued £11bn in government guaranteed debt in maturities of 1 to 3 years.

Barclays funds securities based on liquidity characteristics. Limits are in place for each security asset class reflecting liquidity in the cash and financing markets for these assets. Approximately 85% of assets funded in repurchase and stock loan transactions are fundable within central bank facilities (excluding Bank of England Emergency facilities and the Federal Reserve Primary Dealer Credit Facility).

Liquidity risk to secured funding is also mitigated by:

- selecting reliable counterparties
- maintaining term financing and by limiting the amount of overnight funding
- limiting overall secured funding usage

Secured Financing by Asset Class (% of Total Secured Funding)[1]

	Govt %	Agy %	MBS %	ABS %	Corp %	Equity %	Other %
By percentage	45	8	10	6	13	7	11

Scenario Analysis and Stress Testing

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.

Sources of Readily Available Contingent Liquidity

	Deposits with Central Banks %	Deposits with Other Financial Institutions %	Government Guaranteed Issuance %	Collateral Eligible for Repo %	Other Contingent Liquidity %
By percentage	39	7	13	37	4

In addition, Barclays maintains significant pools of securitisable assets.

1 MBS includes only agency mortgages. ABS includes private label issuance of residential mortgage backed securities.

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Capital and Performance Management

Total Assets by Business

	As at 31.12.08 £m	As at 31.12.07 £m
UK Retail Banking	101,384	88,477
Barclays Commercial Bank	84,029	74,566
Barclaycard	30,925	22,121
GRCB - Western Europe	64,732	43,702
GRCB - Emerging Markets	14,653	9,188
GRCB - Absa	40,391	36,368
Barclays Capital	1,629,117	839,850
Barclays Global Investors	71,340	89,218
Barclays Wealth	13,263	18,188
Head Office Functions and Other Operations	3,146	5,683
Total assets	**2,052,980**	**1,227,361**

Risk Weighted Assets by Business

	As at 31.12.08 Basel II £m	As at 31.12.07[1] Basel II £m
UK Retail Banking	30,491	31,463
Barclays Commercial Bank	63,081	57,040
Barclaycard	27,316	20,199
GRCB - Western Europe	36,480	24,971
GRCB - Emerging Markets	15,080	10,484
GRCB - Absa	18,846	17,829
Barclays Capital	227,448	178,206
Barclays Global Investors	3,910	4,369
Barclays Wealth	10,300	8,216
Head Office Functions and Other Operations	350	1,101
Total risk weighted assets	**433,302**	**353,878**

Risk Weighted Assets by Risk

	As at 31.12.08 Basel II £m	As at 31.12.07 Basel II £m
Credit risk	266,912	244,474
Counterparty risk	70,902	41,203
Market risk	65,372	39,812

Operational risk	30,116	28,389
Total risk weighted assets	**433,302**	**353,878**

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

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Capital and Performance Management

	As at 31.12.08 £m	As at 31.12.07 £m
Capital Resources		
Tier 1		
Called up share capital	2,093	1,651
Eligible reserves	31,156	22,939
Minority interests[1]	13,915	10,551
Tier 1 notes[2]	1,086	899
Less: intangible assets	(9,964)	(8,191)
Less: deductions from Tier 1 capital	(1,036)	(1,106)
Total qualifying Tier 1 capital	**37,250**	**26,743**
Tier 2		
Revaluation reserves	26	26
Available for sale-equity gains	122	295
Collectively assessed impairment allowances	1,654	440
Minority interests	607	442
Qualifying Subordinated Liabilities:[3]		
Undated loan capital	6,745	3,191
Dated loan capital	14,215	10,578
Less: deductions from Tier 2 capital	(1,036)	(1,106)
Total qualifying Tier 2 capital	**22,333**	**13,866**
Less: Regulatory Deductions		
Investments not consolidated for supervisory purposes	(403)	(633)
Other deductions	(453)	(193)
Total deductions	**(856)**	**(826)**
Total net capital resources	**58,727**	**39,783**
Capital Ratios		
Equity Tier 1 ratio[4]	5.8%	5.1%
Tier 1 ratio	8.6%	7.6%
Risk asset ratio	13.6%	11.2%

1 *Includes equity minority interests of £1,981m (31st December 2007: £1,608m).*
2 *Tier 1 notes are included in subordinated liabilities in the consolidated balance sheet.*
3 *Subordinated liabilities include excess innovative Tier 1 instruments and are subject to limits laid down in the regulatory requirements.*
4 *Equity Tier 1 ratio is defined as the ratio of called-up share capital and eligible reserves plus equity minority interests less intangible assets, to risk weighted assets.*

Barclays PLC 2008 Results

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Capital and Performance Management

Capital Resources

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

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

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

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

Basel I Transitional Floor

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

Reconciliation of Regulatory Capital

Capital is defined differently for accounting and regulatory purposes. A reconciliation of shareholders equity for accounting purposes to called up share capital and eligible reserves for regulatory purposes is set out below:

	As at 31.12.08 Basel II £m	**As at 31.12.07 Basel II £m**
Shareholders equity excluding minority interests	36,618	23,291
MCNs not yet converted	(3,652)	
Available for sale reserve	1,190	(154)
Cash flow hedging reserve	(132)	(26)
Adjustments to Retained Earnings		
Defined benefit pension scheme	849	1,053
Additional companies in regulatory consolidation and non-consolidated companies	(94)	(281)
Foreign exchange on RCIs and upper Tier 2 loan stock	(231)	478
Adjustment for own credit	(1,650)	(461)
Other adjustments	351	690
Called up share capital and eligible reserves for regulatory purposes	**33,249**	**24,590**

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Accounting Policies

Group Reporting Changes 2008

Barclays announced on 22 July 2008 the impact of certain changes in Group Structure and reporting on the 2007 results. There was no impact on the Group income statement or balance sheet.

The businesses previously managed and reported as International Retail and Commercial Banking excluding Absa are now reported and managed separately as Global Retail and Commercial Banking Western Europe and Global Retail and Commercial Banking Emerging Markets.

Barclays Commercial Bank. The Marine Finance business, previously part of Barclaycard, is now managed and reported within Barclays Commercial Bank.

Barclaycard. The Absa credit card portfolio, previously part of International Retail and Commercial Banking Absa is now managed and reported within Barclaycard. Certain credit card portfolios previously part of Barclaycard are now managed and reported as part of Global Retail and Commercial Banking Western Europe. The Marine Finance business, previously part of Barclaycard is now managed and reported within Barclays Commercial Bank.

Global Retail and Commercial Banking - Western Europe. Certain credit card portfolios previously part of Barclaycard are now managed and reported as part of Global Retail and Commercial Banking Western Europe.

International Retail and Commercial Banking Absa. This business will be known going forward as **Global Retail and Commercial Banking Absa.** The Absa credit card portfolio previously part of Global Retail and Commercial Banking Absa is now managed and reported within Barclaycard.

Certain expenses, assets and staff previously reported within International Retail and Commercial Banking excluding Absa have been allocated across UK Retail Banking, Barclays Commercial Bank, Barclaycard, Global Retail and Commercial Banking Western Europe, Global Retail and Commercial Banking Emerging Markets and Global Retail and Commercial Banking Absa.

Certain pension assets and liabilities have been reclassified from Head Office and Other Operations to the other businesses in the Group.

UK Banking which previously reflected UK Retail Banking and Barclays Commercial Bank combined is no longer reported as a separate segment.

The structure remains unchanged for Barclays Capital, Barclays Global Investors, Barclays Wealth and Head Office and Other Operations.

Basis of Preparation

There have been no significant changes to the accounting policies described in the 2007 Annual report 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. The standard does not change the recognition, measurement or disclosure of specific transactions in the condensed 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 on page 90. 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.

Other than the exceptions, the information in this announcement has been prepared using the accounting policies and presentation applied in 2007.

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Notes

1. Net Interest Income

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £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
Interest income	**28,010**	**25,308**
Deposits from banks	(2,189)	(2,720)
Customer accounts	(6,697)	(4,110)
Debt securities in issue	(5,910)	(6,651)
Subordinated liabilities	(1,349)	(878)
Other	(396)	(1,339)
Interest expense	**(16,541)**	**(15,698)**
Net interest income	**11,469**	**9,610**

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

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

2. Net Fee and Commission Income

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Brokerage fees	87	109
Investment management fees	1,616	1,787
Securities lending	389	241
Banking and credit related fees and commissions	7,208	6,363
Foreign exchange commission	189	178

Fee and commission income	**9,489**	**8,678**
Fee and commission expense	**(1,082)**	**(970)**
Net fee and commission income	**8,407**	**7,708**

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

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3. Principal Transactions

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Rates related business	4,751	4,162
Credit related business	(3,422)	(403)
Net trading income	**1,329**	**3,759**
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
Net investment income	**680**	**1,216**
Principal transactions	**2,009**	**4,975**

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

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

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

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

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

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

4. Net Premiums from Insurance Contracts

	Year Ended 31.12.08	Year Ended 31.12.07

	£m	£m
Gross premiums from insurance contracts	1,138	1,062
Premiums ceded to reinsurers	(48)	(51)
Net premiums from insurance contracts	**1,090**	**1,011**

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

Notes

5. Other Income

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £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	304	135
	377	**188**

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

6. Net Claims and Benefits Incurred Under Insurance Contracts

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Gross claims and benefits incurred under insurance contracts	263	520
Reinsurers share of claims incurred	(26)	(28)
Net claims and benefits incurred under insurance contracts	**237**	**492**

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

7. Impairment Charges and Other Credit Provisions

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Impairment charges on loans and advances	4,584	2,306
Charges in respect of undrawn facilities and guarantees	329	476
Impairment charges on loans and advances and other credit provisions	**4,913**	**2,782**

Impairment charges on reverse repurchase agreements	124	
Impairment charges on available for sale assets	382	13
Impairment charges and other credit provisions	**5,419**	**2,795**

Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures included above:

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Impairment charges on loans and advances	1,218	300
Charges in respect of undrawn facilities and guarantees	299	469
Impairment charges on loans and advances and other credit provisions on ABS CDO Super Senior and other credit market exposures	**1,517**	**769**
Impairment charges on reverse repurchase agreements	54	
Impairment charges on available for sale assets	192	13
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures	**1,763**	**782**

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8. Operating Expenses

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Staff costs	7,779	8,405
Administrative expenses	5,153	3,978
Depreciation	630	467
Impairment loss - property and equipment and intangible assets	30	16
Operating lease rentals	520	414
Gain on property disposals	(148)	(267)
Amortisation of intangible assets	291	186
Impairment of goodwill	111	
Operating expenses	**14,366**	**13,199**

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

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

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

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

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

Staff Costs

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Salaries and accrued incentive payments	6,273	6,993
Social security costs	464	508
Pension costs		
defined contribution plans	237	141
defined benefit plans	89	150
Other post retirement benefits	1	10
Other	715	603

Staff costs	**7,779**	**8,405**

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

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

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Staff Numbers

	Year Ended 31.12.08	Year Ended 31.12.07
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 Functions and Other Operations	1,400	1,100
Total Group permanent and fixed term contract staff worldwide	**156,300**	**134,900**

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

UK Retail Banking staff numbers decreased 300 to 30,400 (2007: 30,700).

Barclays Commercial Bank staff numbers increased 600 to 9,800 (2007: 9,200) reflecting investment in product expertise, sales and risk capability and associated support areas.

Barclaycard staff numbers increased 700 to 9,600 (2007: 8,900), primarily due to the transfer of staff into Absacard as a result of the acquisition of a majority stake in the South African Woolworth Financial Services business in October 2008.

GRCB - Western Europe staff numbers increased 2,100 to 10,900 (2007: 8,800), reflecting expansion of the retail distribution network.

GRCB - Emerging Markets staff numbers increased 8,800 to 22,700 (2007: 13,900) driven by expansion into new markets and continued investment in distribution in existing countries.

GRCB - Absa staff numbers increased 1,000 to 36,800 (2007: 35,800), reflecting continued growth in the business and investment in collections capacity.

Barclays Capital staff numbers increased 6,900 to 23,100 (2007: 16,200) due principally to the acquisition of Lehman Brothers North American business.

Barclays Global Investors staff numbers increased 300 to 3,700 (2007: 3,400). Staff numbers increased primarily in the iShares business due to continued expansion in the global ETF franchise.

Barclays Wealth staff numbers increased 1,000 to 7,900 (2007: 6,900) principally due to the acquisition of the Lehman Brothers North American business.

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9. Share of Post-Tax Results of Associates and Joint Ventures

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Profit from associates	22	33
(Loss)/profit from joint ventures	(8)	9
Share of post-tax results of associates and joint ventures	**14**	**42**

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

10. Profit on Disposal of Subsidiaries, Associates and Joint Ventures

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Profit on disposal of subsidiaries, associates and joint ventures	**327**	28

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

11. Acquisitions

The Group made the following material acquisitions in 2008:

a) Lehman Brothers North American businesses

On 22nd September 2008 Barclays completed the acquisition of Lehman Brothers North American businesses.

The acquired assets and liabilities summarised in the following table 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.

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 gains 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 1 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.

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b) Macquarie Bank Limited Italian residential mortgage businesses.

On 6th November 2008 Barclays purchased the Italian residential mortgage business of Macquarie Bank Limited for a cash consideration of £765m, for fair value net assets of £817m, which gave rise to a gain on acquisition of £52m.

The results of these businesses operations have been included from 6th November 2008 and contributed £1m loss to the consolidated profit before tax.

c) Goldfish credit card UK businesses.

On 31st March 2008, Barclays completed the acquisition of Discover s UK credit card business, Goldfish for a cash consideration of £38m (including attributable costs of £3m), for fair value net assets of £130m, which gave rise to a gain on acquisition of £92m.

The results of this business operation have been included from 31st March 2008 and contributed £40m to the consolidated profit before tax.

d) Expobank

On 1st July 2008, Barclays acquired 100% of the ordinary shares of the Russian bank Expobank for a cash consideration of £393m including attributable costs of £7m, for fair value net assets of £150m, which gave rise to goodwill of £243m

The results of the business s operations have been included from 1st July 2008 and contributed £13m loss to the consolidated profit before tax

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The fair value of the assets and liabilities of the material acquisitions, details of purchase price and the gain on acquisition arising are as follows:

	Lehman Brothers North American Businesses Fair Values £m	Goldfish Card Services Fair Values £m	Macquarie Bank Businesses Fair Values £m	Total Fair Values £m	Expobank Fair Values £m
Assets					
Cash and balances at central banks	861	172	3	1,036	73
Trading portfolio assets	23,837			23,837	52
Loans and advances to banks		8		8	
Loans and advances to customers	3,642	1,963	813	6,418	451
Available-for-sale financial investments	1,948			1,948	
Other assets	41	38		79	9
Intangible assets[1]	888	32		920	45
Property, plant and equipment	886	40	1	927	28
Deferred tax asset	229	12		241	
Total assets	**32,332**	**2,265**	**817**	**35,414**	**658**
Liabilities					
Deposits from banks					71
Customer accounts	2,459	1,974		4,433	318
Derivative financial instruments	599			599	
Debt securities in issue					103
Repurchase agreements and cash collateral on securities lent	24,409			24,409	
Other liabilities	1,049	152		1,201	16
Deferred tax liabilities	517	9		526	
Total liabilities	**29,033**	**2,135**		**31,168**	**508**
Net assets acquired (excludes Obligation to be settled in shares)	3,299	130	817	4,246	150
Obligation to be settled in shares[2]	(163)			(163)	
Acquisition Cost					
Cash paid	834	35	765	1,634	386
Attributable costs	40	3		43	7
Total consideration	**874**	**38**	**765**	**1,677**	**393**
Goodwill					(243)

Gain on acquisition	**2,262**	**92**	**52**	**2,406**

The excess remaining after the reassessment of the acquiree s identifiable assets, liabilities and contingent liabilities which has been recognised within the consolidated income statement as a gain on acquisition is £2,406m.

1 *Intangible assets within the Lehman Brothers North American businesses acquisition included an amount of £636m relating to independently assessed customer lists.*

2 *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.*

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12. Tax

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.

13. Profit Attributable to Minority Interests

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Absa Group Limited	318	299
Preference shares	390	198
Reserve capital instruments	100	87
Upper Tier 2 instruments	12	16
Barclays Global Investors minority interests	17	40
Other minority interests	68	38
Profit attributable to minority interests	**905**	**678**

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14. Earnings Per Share

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Profit attributable to equity holders of the parent	4,382	4,417
Dilutive impact of convertible options	(24)	(25)
Profit attributable to equity holders of the parent including dilutive impact of convertible options	**4,358**	**4,392**
Basic weighted average number of shares in issue	7,389	6,410
Number of potential ordinary shares[1]	188	177
Diluted weighted average number of shares	**7,577**	**6,587**
Basic earnings per ordinary share	59.3p	68.9p
Diluted earnings per ordinary share	57.5p	66.7p

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent and the weighted average number of shares excluding own shares held in employee benefit trusts and shares held for trading.

The basic and diluted weighted average number of shares in issue in the year ended 31st December 2008 reflected 1,802 million shares issued during the year and the 2,642 million shares that will be issued following conversion in full of the Mandatorily Convertible Notes. The weighted average number of shares in issue in the year ended 31st December 2008 was increased by 1,034 million shares as a result of this increase.

As required by IAS 33 Earnings per share , the full 2,642 million shares that will be issued following conversion in full of the Mandatorily Convertible Notes issued during the year were included in the weighted average number of shares calculation from the date the contract was entered into. The basic and diluted earnings per ordinary share therefore reflected the impact of the Mandatorily Convertible Notes issued in 2008.

When calculating the diluted earnings per share, the profit attributable to equity holders of the parent is adjusted for the conversion of outstanding options into shares within Absa Group Limited and Barclays Global Investors UK Holdings Limited. The weighted average number of ordinary shares excluding own shares held in employee benefit trusts and shares held for trading, is adjusted for the effects of all dilutive potential ordinary shares, totalling 188 million (2007: 177 million).

15. Dividends on Ordinary Shares

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Dividends Paid During the Period		
Final dividend (paid 25th April 2008, 27th April 2007)	1,438	1,311
Interim dividend (paid 1st October 2008, 1st October 2007)	906	768

Final dividend	22.5p	20.5p
Interim dividend	11.5p	11.5p

Dividend Proposed

As announced on 13th October 2008, the Board of Barclays concluded that it would not be appropriate to pay a final dividend for 2008.

1 Potential ordinary shares reflect the dilutive impact of share options outstanding.

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16. Derivative Financial Instruments

	Contract Notional Amount £m	Assets £m	Liabilities £m
Derivatives Held for Trading As at 31.12.08 Fair Value			
Foreign exchange derivatives	2,639,133	107,113	(113,818)
Interest rate derivatives	37,875,235	613,257	(605,521)
Credit derivatives	4,129,244	184,072	(170,011)
Equity and stock index and commodity derivatives	1,097,170	77,554	(74,721)
Total derivative assets/(liabilities) held for trading	**45,740,782**	**981,996**	**(964,071)**
Derivatives in Hedge Accounting Relationships			
Derivatives designated as cash flow hedges	83,554	1,322	(1,790)
Derivatives designated as fair value hedges	35,702	1,459	(572)
Derivatives designated as hedges of net investments	5,694	25	(1,639)
Total derivative assets/(liabilities) designated in hedge accounting relationships	**124,950**	**2,806**	**(4,001)**
Total recognised derivative assets/(liabilities)	**45,865,732**	**984,802**	**(968,072)**
	£m	**£m**	**£m**
Derivatives Held for Trading As at 31.12.07 Fair Value			
Foreign exchange derivatives	2,208,369	30,348	(30,300)
Interest rate derivatives	23,608,949	139,940	(138,426)
Credit derivatives	2,472,249	38,696	(35,814)
Equity and stock index and commodity derivatives	910,328	37,966	(42,838)
Total derivative assets/(liabilities) held for trading	**29,199,895**	**246,950**	**(247,378)**
Derivatives in Hedge Accounting Relationships			
Derivatives designated as cash flow hedges	55,292	458	(437)
Derivatives designated as fair value hedges	23,952	462	(328)
Derivatives designated as hedges of net investments	12,620	218	(145)
Total derivative assets/(liabilities) designated in hedge accounting relationships	**91,864**	**1,138**	**(910)**
Total recognised derivative assets/(liabilities)	**29,291,759**	**248,088**	**(248,288)**

The £737bn (2007: £110bn) increase in the gross derivative assets has been predominantly driven by significant volatility and movements in yield curves during the year together with a substantial depreciation in Sterling against most major currencies.

Derivative assets and liabilities would be £917,074m (2007: £215,485m) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold cash collateral.

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The tables below set out the fair values of the derivative assets together with the value of those assets subject to enforceable counterparty netting arrangements for which the Group holds offsetting liabilities and eligible collateral.

	Gross Assets £m	Counterparty Netting £m	Net Exposure £m
Derivatives As at 31.12.08			
Foreign Exchange	107,730	91,572	16,158
Interest Rate	615,321	558,985	56,336
Credit derivatives	184,072	155,599	28,473
Equity and stock index	28,684	20,110	8,574
Commodity derivatives	48,995	35,903	13,092
	984,802	**862,169**	**122,633**
Total collateral held			**54,905**
Net exposure less collateral			**67,728**
	£m	**£m**	**£m**
Derivatives As at 31.12.07			
Foreign Exchange	30,824	22,066	8,758
Interest Rate	140,504	117,292	23,212
Credit derivatives	38,696	31,307	7,389
Equity and stock index	13,296	12,151	1,145
Commodity derivatives	24,768	15,969	8,799
	248,088	**198,785**	**49,303**
Total collateral held			**16,700**
Net exposure less collateral			**32,603**

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17. Fair Value Measurement of Financial Instruments
Financial assets and liabilities recognised and measured at fair value analysed by valuation technique

Financial instruments with a fair value based on observable inputs include valuations determined by unadjusted quoted prices in an active market and market standard pricing models that use observable inputs.

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

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

Exotic products are over-the-counter products that are relatively bespoke, not commonly traded in the markets, and their valuation comes from sophisticated mathematical models where some of the inputs are not observable.

The table below shows the Group s financial assets and liabilities that are recognised and measured at fair value analysed by valuation technique:

	Valuations Based on Observable Inputs	Valuations Based on Unobservable Inputs			
	Total	Vanilla products	Exotic products	Total	Total
	£m	£m	£m	£m	£m
31st December 2008					
Trading Portfolio Assets	174,168	11,469		11,469	185,637
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	63,149	1,827		1,827	64,976
Total Assets	**1,311,620**	**42,291**	**2,703**	**44,994**	**1,356,614**
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)
Total Liabilities	**(1,159,181)**	**(6,479)**	**(7,961)**	**(14,440)**	**(1,173,621)**
	£m	**£m**	**£m**	**£m**	**£m**

31st December 2007					
Trading Portfolio Assets	189,234	4,457		4,457	193,691
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	42,262	810		810	43,072
Total Assets	**607,538**	**23,204**	**1,589**	**24,793**	**632,331**
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)
Total Liabilities	**(470,222)**	**(2,171)**	**(8,425)**	**(10,596)**	**(480,818)**

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Of the total assets of £1,356,614m measured at fair value, £44,994m, 3% of total assets measured at fair value, (£24,793m, 4% as at 31st December 2007) were valued using models with unobservable inputs

Valuations based on unobservable inputs primarily relate to asset backed securities (commercial and residential mortgage), loans and related derivatives; monoline counterparty, fund-linked and other structured and long dated derivatives (including those embedded in structured notes); and private equity and principal investments. The value of those assets measured using unobservable inputs increased by £20,201m to £44,994m as at 31st December 2008. While the derivative assets associated with our monoline exposure accounted for a significant portion of this, further increases arose due to weakness in Sterling, as well as increased illiquidity in the market.

As part of our risk management processes, we apply stress tests on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The results of the most recent stress test showed a potential 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. The widening of the stress sensitivity over 2007 levels is due to the continued market dislocation and increased volatility in unobservable inputs.

Unobservable Profit

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Opening balance	**154**	**534**
Additions	77	134
Amortisation and releases	(103)	(514)
Closing balance	**128**	**154**

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18. Reclassification of Financial Assets Held for Trading

On 16th December 2008 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. At the time of transfer, the Group identified rare circumstances permitting such a 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.

	As at 16.12.08 Carrying Value £m	Year Ended 31.12.08 Carrying Value £m	Year Ended 31.12.08 Fair Value £m
Trading assets reclassified to loans and receivables	**4,046**	**3,986**	**3,984**

As at the date of reclassification, the effective interest rates on reclassified trading assets ranged from 0.18% to 9.29% with undiscounted interest and principal 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.

	Year Ended 31.12.08 £m
Net interest income	4
Provision for credit losses	
Income before income taxes on reclassified trading assets	4

Prior to reclassification in 2008, £144m of unrealised fair value losses on the reclassified trading assets were recognised in the consolidated income statement for 2008 (2007: £218m loss).

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19. Loans and Advances to Banks

	As at 31.12.08 £m	As at 31.12.07 £m
By Geographical Area		
United Kingdom	7,532	5,518
Other European Union	12,600	11,102
United States	13,616	13,443
Africa	2,189	2,581
Rest of the World	11,821	7,479
	47,758	**40,123**
Less: Allowance for impairment	(51)	(3)
Total loans and advances to banks	**47,707**	**40,120**

Loans and advances to banks included £3,375m (31st December 2007: £4,210m) of settlement balances and £15,889m (31st December 2007: £10,739m) of cash collateral balances.

20. Loans and Advances to Customers

	As at 31.12.08 £m	As at 31.12.07 £m
Retail business	201,588	162,081
Wholesale and corporate business	266,750	187,086
	468,338	**349,167**
Less: Allowances for impairment	(6,523)	(3,769)
Total loans and advances to customers	**461,815**	**345,398**
By Geographical Area		
United Kingdom	216,018	190,347
Other European Union	92,063	56,533
United States	77,387	40,300
Africa	45,230	39,167
Rest of the World	37,640	22,820
	468,338	**349,167**
Less: Allowance for impairment	(6,523)	(3,769)
Total loans and advances to customers	**461,815**	**345,398**

Loans and advances to customers included £26,411m (31st December 2007: £18,249m) of settlement balances and £33,743m (31st December 2007: £13,441m) of cash collateral balances.

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21. Allowance for Impairment on Loans and Advances

	As at 31.12.08 £m	As at 31.12.07 £m
At beginning of period	3,772	3,335
Acquisitions and disposals	307	(73)
Exchange and other adjustments	791	53
Unwind of discount	(135)	(113)
Amounts written off	(2,919)	(1,963)
Recoveries	174	227
Amounts charged against profit	4,584	2,306
At end of period	**6,574**	**3,772**
Allowance		
United Kingdom	2,947	2,526
Other European Union	963	344
United States	1,561	356
Africa	857	514
Rest of the World	246	32
At end of period	**6,574**	**3,772**
Amounts Charged Against Profit		
New and Increased Impairment Allowances		
United Kingdom	2,160	1,960
Other European Union	659	192
United States	1,529	431
Africa	526	268
Rest of the World	242	20
	5,116	**2,871**
Less: Releases of Impairment Allowance		
United Kingdom	(212)	(213)
Other European Union	(68)	(37)
United States	(9)	(50)
Africa	(36)	(20)
Rest of the World	(33)	(18)
	(358)	**(338)**
Less: Recoveries		
United Kingdom	(131)	(154)
Other European Union	(4)	(32)
United States	(1)	(7)
Africa	(36)	(34)
Rest of the World	(2)	

	(174)	**(227)**
Total amounts charged against profit	**4,584**	**2,306**

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22. Provisions

	As at 31.12.08 £m	As at 31.12.07 £m
Redundancy and restructuring	118	82
Undrawn contractually committed facilities and guarantees	109	475
Onerous contracts	50	64
Sundry provisions	258	209
	535	**830**

Undrawn contractually committed facilities and guarantees have decreased primarily as a result of liquidating the remaining mezzanine ABS CDO Super Senior exposures.

23. Retirement Benefit Liabilities

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

The Group s IAS 19 pension deficit in respect of the main UK scheme as at 31st December 2008 was £858m (31st December 2007: surplus of £668m). 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 improvement 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.

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24. Share Capital and Share Premium

	Number of Shares m	Called Up Share Capital £m	Share Premium £m	Total £m
At 1st January 2008	**6,601**	**1,651**	**56**	**1,707**
Issued to staff under the Sharesave Share Option Scheme	3	1	13	14
Issued under the Incentive Share Option Plan	1		3	3
Issued to staff under the Share Incentive Plan	1		2	2
Issue of new ordinary shares	1,803	451	3,971	4,422
Repurchase of shares	(37)	(10)		(10)
At 31st December 2008	**8,372**	**2,093**	**4,045**	**6,138**
At 1st January 2007	**6,535**	**1,634**	**5,818**	**7,452**
Issued to staff under the Sharesave Share Option Scheme	19	6	62	68
Issued under the Incentive Share Option Plan	10	2	40	42
Issued under the Executive Share Option Scheme			1	1
Issued under the Woolwich Executive Share Option Plan			1	1
Transfer to retained earnings			(7,223)	(7,223)
Issue of new ordinary shares	337	84	1,357	1,441
Repurchase of shares	(300)	(75)		(75)
At 31st December 2007	**6,601**	**1,651**	**56**	**1,707**

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Ordinary Shares		
At beginning of period	1,650	1,633
Issued to staff under the Sharesave Share Option Scheme	1	6
Issued under the Incentive Share Option Plan		2
Issue of new ordinary shares	451	84
Repurchase of shares	(9)	(75)
At end of period	**2,093**	**1,650**
Staff Shares		
At beginning of period	**1**	**1**
Repurchase	(1)	
At end of period		**1**
Total	**2,093**	**1,651**

The authorised share capital of Barclays PLC is £3,540m, US$77.5m, 40m and ¥4,000m. (31st December 2007: £2,500m) comprising 13,996 million (2007: 9,996 million) ordinary shares of 25p each, 0.4 million Sterling preference shares of £100 each, 0.4 million US Dollar preference shares of $100 each, 150 million US Dollar preference shares of $0.25 each, 0.4 million Euro preference shares of 100 each, 0.4 million Yen preference shares of ¥10,000 each and 1 million (2007: 1 million) staff shares of £1 each.

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25. Total Shareholders Equity

	As at 31.12.08 £m	As at 31.12.07 £m
Called up share capital	2,093	1,651
Share premium account	4,045	56
Available for sale reserve	(1,190)	154
Cash flow hedging reserve	132	26
Capital redemption reserve	394	384
Other capital reserve	617	617
Currency translation reserve	2,840	(307)
Other reserves	**2,793**	**874**
Other Equity	3,652	
Retained earnings	24,208	20,970
Less: treasury shares	(173)	(260)
Shareholders equity excluding minority interests	**36,618**	**23,291**
Preference shares	5,927	4,744
Reserve Capital instruments	1,908	1,906
Upper Tier 2 instruments	586	586
Absa minority interests	1,994	1,676
Other minority interests	378	273
Minority interests	**10,793**	**9,185**
Total shareholders equity	**47,411**	**32,476**

Total shareholders equity increased £14,935m to £47,411m (31st December 2007: £32,476m).

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

Retained earnings increased £3,238m to £24,208m (2007: £20,970m). Profit attributable to the equity holders of the parent of £4,382m and the proceeds of capital raisings of £1,410m were partially offset by dividends paid to shareholders of £2,344m. Other equity of £3,652m relates to the issuance of Mandatorily Convertible Notes.

Movements in other reserves, except the capital redemption reserve, reflect the relevant amounts recorded in the consolidated statement of recognised income and expense on page 7.

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

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Called up share capital comprises 8,372 million (31st December 2007: 6,600 million) ordinary shares of 25p each and nil (31st December 2007: 1 million) staff shares of £1 each.

During the year, the following share issues took place:

On 4th July 2008, Barclays PLC raised approximately £500m (before issue costs) through the issue of 168.9 million new ordinary shares at £2.96 per share in a firm placing to Sumitomo Mitsui Banking Corporation.

On 22nd July 2008, Barclays PLC raised approximately £3,969m (before issue costs) through the issue of 1,407.4 million new ordinary shares at £2.82 per share in a placing to Qatar Investment Authority, Challenger Universal Limited (a company representing the beneficial interests of His Excellency Sheikh Hamad Bin Jassim Bin Jabr Al-Thani, the chairman of Qatar Holding LLC, and his family), China Development Bank, Temasek Holdings (Private) Limited and certain leading institutional shareholders and other investors, which shares were available for clawback in full by means of an open offer to existing shareholders. Valid applications under the open offer were received from qualifying shareholders in respect of approximately 267 million new ordinary shares in aggregate, representing 19.0 per cent. of the shares offered pursuant to the open offer. Accordingly, the remaining 1,140.3 million shares were allocated to the various investors with whom they had been conditionally placed.

On 18th September 2008, Barclays PLC raised approximately £701m (before issue costs) through the issue of 226 million new ordinary shares at £3.10 per share to certain institutional investors. The proceeds of the issuance, in excess of the nominal value and issue costs, of £634m were credited to retained earnings. This resulted from the operation of section 131 of the Companies Act 1985 with regard to the issue of shares by Barclays PLC in exchange for shares in Long Island Investments Jersey No. 1 Limited and the subsequent redemption of redeemable preference shares of that company for cash.

During the period from 27th November 2008 to 31st December 2008, 33,000 ordinary shares have been issued following conversion of Mandatorily Convertible Notes (see below) at the option of their holders.

Mandatorily Convertible Notes

On 27th November 2008, Barclays Bank PLC issued £4,050m of 9.75% Mandatorily Convertible Notes (MCNs) maturing on 30th September 2009 to Qatar Holding LLC, and entities representing the beneficial interests of HH Sheikh Mansour Bin Zayed Al Nahyan, a member of the Royal Family of Abu Dhabi and existing institutional shareholders and other institutional investors. If not converted at the holders option beforehand, these instruments mandatorily convert to ordinary shares of Barclays PLC on 30th June 2009. The conversion price is £1.53276, and, after taking into account MCNs that were converted on or before 31st December 2008, will result in the issue of 2,642 million new ordinary shares. Following conversion the relevant amounts will be credited to share capital and share premium.

Of the net proceeds of the MCNs, £233m have been included in liabilities being the fair value of the coupon. The remaining net proceeds are included in Other Equity until conversion (see Note 25).

Warrants

On 31st October 2008 Barclays PLC issued, in conjunction with a simultaneous issue of Reserve Capital Instruments issued by Barclays Bank PLC, warrants to subscribe for up to 1,516.9 million new ordinary shares at a price of £1.97775 to Qatar Holding and HH Sheikh Mansour Bin Zayed Al Nahyan. The fair value, net of transaction costs attributable to the warrants is recorded in retained earnings. These may be exercised at any time up to close of business 31st October 2013.

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26. Analysis of Statement of Recognised Income and Expense

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
Available for Sale Reserve		
Net (losses)/gains from changes in fair value	(1,741)	484
Losses transferred to net profit due to impairment	382	13
Net gains transferred to net profit on disposal	(209)	(563)
Net (gains)/losses transferred to net profit due to fair value hedging	(2)	68
Net movements in available for sale reserves	**(1,570)**	**2**
Cash Flow Hedging Reserve		
Net gains from changes in fair value	305	106
Net losses transferred to net profit	71	253
Net movements in cash flow hedging reserve	**376**	**359**
Net movements in currency translation reserve	2,407	54
Tax	841	54
Other movements	(5)	22
Amounts included directly in equity	**2,049**	**491**
Profit after tax	5,287	5,095
Total recognised income and expense	**7,336**	**5,586**

The consolidated statement of recognised income and expense reflects all items of income and expense for the period, including items taken directly to equity. Movements in individual reserves are shown including amounts which relate to minority interests; the impact of such amounts is then reflected in the amount attributable to such interests. Movements in individual reserves are also shown on a pre-tax basis with any related tax recorded on the separate tax line.

The available for sale reserve reflects gains or losses arising from the change in fair value of available for sale financial assets until disposal. The exceptions to reflect fair value movements through the income statement are impairment losses, gains or losses transferred to the income statement due to fair value hedge accounting and foreign exchange gains or losses on monetary items such as debt securities. When an available for sale asset is impaired or derecognised, the cumulative gain or loss previously recognised in the available for sale reserve is transferred to the income statement. The loss of £1,741m (2007: gain of £484m) from changes in fair value and £382m (2007: £13m) due to impairment reflects the downturn across the US credit markets. The decrease in net gains transferred to net profit is primarily due to the lower level of disposals.

Cash flow hedging aims to minimise exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The fair value gain or loss associated with the effective portion of the hedge is initially recognised 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. The movement in 2008 relates to an increase in the fair value of received fixed interest rate swaps. These gains were partially offset by losses on interest rate swaps entered into as the payer of US Dollars.

Exchange differences arising on the net investments in foreign operations and effective hedges of net investments are recognised in the currency translation reserve and transferred to the income statement on the disposal of the net investment. The currency movement on net investments is also hedged through preference share capital that is not revalued for accounting purposes and therefore not recognised in the consolidated statement of recognised income and expense. The movement in 2008 primarily reflects the impact of changes in the value of the US Dollar, Euro and Yen against Sterling. These movements largely reflect the value of currency movements on net investments which are economically hedged through preference share capital that is not revalued for accounting purposes and on net investments which are hedged on a post-tax basis.

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27. Contingent Liabilities and Commitments

	As at 31.12.08 £m	As at 31.12.07 £m
Acceptances and endorsements	585	365
Guarantees and letters of credit pledged as collateral security	15,652	12,973
Securities lending arrangements	38,290	22,719
Other contingent liabilities	11,783	9,717
Contingent liabilities	**66,310**	**45,774**
Documentary credits and other short-term trade related transactions	859	522
Undrawn note issuance and revolving underwriting facilities:		
Forward asset purchases and forward deposits placed	291	283
Standby facilities, credit lines and other	259,666	191,834
Commitments	**260,816**	**192,639**

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 31st December 2008. The market value of collateral held by the funds was £39,690m (2007: £23,559m).

28. Adjusted Gross Leverage

	Pro Forma 31.12.08 £m	As at 31.12.08 £m	As at 31.12.07 £m
Adjusted Gross Leverage			
Total assets		2,052,980	1,227,361
Counterparty net / collateralised derivatives (note 16)		(917,074)	(215,485)
Financial assets designated at fair value and associated cash balances held in respect of linked liabilities to customers under investment contracts		(69,183)	(92,639)
Net Settlement Balances (note 19 and 20)		(29,786)	(22,459)
Goodwill and intangible assets		(10,402)	(8,296)
Adjusted total tangible assets		**1,026,535**	**888,482**
Total qualifying Tier 1 capital	42,246	37,250	26,743
Adjusted gross leverage	24	28	33

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29. 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 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. The hearing concluded on 5th November with judgment reserved. A judgment from the Court of Appeal is expected in the first quarter of 2009. The proceedings will now concentrate exclusively on UTCCR issues. It is likely that they 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 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.

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30. 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.

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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 failed, including Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki Icesave , and London Scottish Bank plc. 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 failed 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.

31. 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.

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Other Information

Share Capital

The Group manages its debt and equity capital actively. The Group s authority to buy back ordinary shares (up to 984.9 million ordinary shares) was renewed at the 2008 Annual General Meeting. The Group will seek to renew its authority to buy back ordinary shares at the 2009 Annual General Meeting to provide additional flexibility in the management of the Group s capital resources.

At the 2008 Annual General Meeting, shareholders approved the creation of Sterling, Dollar, Euro and Yen preference shares (Preference Shares) in order to provide the Group with more flexibility in managing its capital resources. No preference shares have been issued.

During the first half of 2008 Barclays repurchased in the market 36,150,000 of its ordinary shares of 25p each at a total cost of £171,923,243. This was the completion of the repurchase programme in order to minimise the dilutive effect on its existing shareholders of the issuance of a total of 336,805,556 Barclays ordinary shares to Temasek Holdings and China Development Bank in 2007.

Barclays purchased all of its staff shares in issue, following approval for such purchase being given at the 2008 Annual General Meeting, at a total cost of £1,023,054.

Group Share Schemes

The independent trustees of the Group s share schemes may make purchases of Barclays PLC ordinary shares in the market at any time or times following this announcement of the Group s results for the purposes of those schemes current and future requirements. The total number of ordinary shares purchased would not be material in relation to the issued share capital of Barclays PLC.

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Glossary of Terms

Adjusted gross leverage is calculated as set out in note 28

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

CRL is defined as Credit Risk Loans.

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

Gain on acquisition is defined as the amount by which the acquirer s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, recognised in a business combination, exceeds the cost of the combination.

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

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

Absa Definitions

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

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

Absa Card is the portion of Absa s results that is reported by Barclays within Barclaycard.

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

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