BARCLAYS PLC
Form 20-F
March 26, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the fiscal year ended December 31, 2006**

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________.

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

BARCLAYS PLC

BARCLAYS BANK PLC

(Exact names of registrants as specified in their charters)

ENGLAND

(Jurisdictions of incorporation)

1 CHURCHILL PLACE, LONDON, E14 5HP, ENGLAND

(Address of principal executive offices)

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

	Title of each class	Name of each exchange on which registered
Barclays PLC	25p ordinary shares	New York Stock Exchange*
	American Depositary Shares, each representing four 25p ordinary shares	New York Stock Exchange
Barclays Bank PLC	7.4% Subordinated Notes 2009	New York Stock Exchange
	Callable Floating Rate Notes 2035	New York Stock Exchange
	Non-Cumulative Callable Dollar Preference Shares, Series 2	New York Stock Exchange*
	American Depositary Shares, Series 2, each representing one Non-Cumulative Callable Dollar Preference Share, Series 2	New York Stock Exchange
	iPath℠ Exchange Traded Notes Linked to GSCI® Total Return Index	New York Stock Exchange
	iPath℠ Exchange Traded Notes Linked to Dow Jones AIG Commodity Index Total Return℠	New York Stock Exchange
	iPath℠ Exchange Traded Notes Linked to Goldman Sachs Crude Oil Total Return Index	New York Stock Exchange
	iPath℠ MSCI India Index℠ ETN	New York Stock Exchange

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

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

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

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

Barclays PLC	25p ordinary shares	6,534,698,021
	£1 staff shares	875,000
Barclays Bank PLC	£1 ordinary shares	2,329,960,515
	£1 preference shares	1,000
	£100 preference shares	75,000
	100 preference shares	240,000
	$0.25 preference shares	30,000,000
	$100 preference shares	100,000

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

Yes þ No ¨

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

Yes ¨ No þ

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

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

Yes þ No ¨

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

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

Indicate by check mark which financial statement item the registrants have elected to follow.

Item 17 ¨ Item 18 þ

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

Yes ¨ No þ

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

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

Yes ¨ No ¨

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In this document certain non-IFRS (International Financial Reporting Standards) measures, such as profit before business disposals, are reported. Barclays management believes that these non-IFRS measures provide valuable information to readers of its financial statements because they enable the reader to focus more directly on the underlying day-to-day performance of its businesses and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays management.

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

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to certain of the Group s plans and its current goals and expectations relating to its future financial condition and performance. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as aim , anticipate , target , expect , estimate , intend , plan , goal , believe , or other words of similar meaning forward-looking statements include, among others, statements regarding the Group s future financial position, income growth, impairment charges, business strategy, projected levels of growth in the banking and financial markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, the further development of standards and interpretations under International Financial Reporting Standards (IFRS) applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, as well as UK domestic and global economic and business conditions, market related risks such as changes in interest rates and exchange rates, the policies and actions of governmental and regulatory authorities, changes in legislation, progress in the integration of Absa into the Group s business and the achievement of synergy targets related to Absa, the outcome of pending and future litigation, the success of future acquisitions and other strategic transactions and the impact of competition a number of which factors are beyond the Group s control. As a result, the Group s actual future results may differ materially from the plans, goals, and expectations set forth in the Group s forward-looking statements. Any forward-looking statements made by or on behalf of Barclays speak only as of the date they are made. Barclays does not undertake to update forward-looking statements to reflect any changes in Barclays expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Barclays has made or may make in documents it has filed or may file with the SEC.

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Absa Definitions

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

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

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

Barclays acquired a controlling stake in Absa Group Limited on 27th July 2005. Therefore, unless otherwise indicated, 2005 comparatives reflect results from that date and are not directly comparable to 2006.

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

Glossary of terms

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

The cost:net income ratio is defined as operating expenses compared to total income net of insurance claims less impairment charges.

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

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

Group reporting changes

Barclays announced on 16th June 2006 the impact of certain changes in Group structure and reporting on the 2005 and 2004 results.

Barclays realigned a number of reportable business segments based on the reorganisation of certain portfolios better to reflect the type of client served, the nature of the products offered and the associated risks and rewards. The Group s policy for the internal cost of funding and the segmental disclosure of risk weighted assets was also revised with effect from 1st January 2006. The reclassifications had no impact on the Group Income Statement or Balance sheet.

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1 Operating review

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Financial data

Consolidated income statement summary IFRS

For the year ended 31st December

	2006	2005	2004[a]
	£m	£m	£m
Continuing operations			
Net interest income	9,143	8,075	6,833
Net fee and commission income	7,177	5,705	4,847
Principal transactions	4,576	3,179	2,514
Net premiums from insurance contracts	1,060	872	1,042
Other income	214	147	131
Total income	22,170	17,978	15,367
Net claims and benefits paid on insurance contracts	(575)	(645)	(1,259)
Total income net of insurance claims	21,595	17,333	14,108
Impairment charges	(2,154)	(1,571)	(1,093)
Net income	19,441	15,762	13,015
Operating expenses	(12,674)	(10,527)	(8,536)
Share of post-tax results of associates and joint ventures	46	45	56
Profit on disposal of subsidiaries, associates and joint ventures	323		45
Profit before tax	7,136	5,280	4,580
Tax	(1,941)	(1,439)	(1,279)
Profit after tax	5,195	3,841	3,301
Profit attributable to minority interests	624	394	47
Profit attributable to equity holders of the parent	4,571	3,447	3,254
	5,195	3,841	3,301

Selected financial statistics			
Basic earnings per share	71.9p	54.4p	51.0p
Diluted earnings per share	69.8p	52.6p	49.8p
Dividends per ordinary share	31.0p	26.6p	24.0p
Dividend payout ratio	43.1%	48.9%	47.1%
Profit attributable to the equity holders of the parent as a percentage of:			
average shareholders equity	24.7%	21.1%	21.7%
average total assets	0.4%	0.4%	0.5%
Cost:income ratio	59%	61%	61%
Cost:net income ratio	65%	67%	66%
Average United States Dollar exchange rate used in preparing the accounts	1.84	1.82	1.83
Average Euro exchange rate used in preparing the accounts	1.47	1.46	1.47
Average Rand exchange rate used in preparing the accounts	12.47	11.57	11.83

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

Note

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

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Consolidated profit and loss account summary UK GAAP

For the year ended 31st December

	2003	2002
	£m	£m
Interest receivable	12,427	12,044
Interest payable	(5,823)	(5,839)
Net interest income	6,604	6,205
Fees and commissions receivable	4,896	4,454
Less: fees and commissions payable	(633)	(529)
Dealing profits	1,054	833
Other operating income	490	364
Operating income	12,411	11,327
Administration expenses staff costs	(4,295)	(3,755)
Administration expenses other	(2,404)	(2,312)
Depreciation	(289)	(303)
Goodwill amortisation	(265)	(254)
Operating expenses	(7,253)	(6,624)
Operating profit before provisions	5,158	4,703
Provisions for bad and doubtful debts	(1,347)	(1,484)
Provisions for contingent liabilities and commitments	1	(1)
Provisions	(1,346)	(1,485)
Operating profit	3,812	3,218
Profit/(loss) from joint ventures	1	(5)
Profit/(loss) from associates	28	(5)
Exceptional items	4	(3)
Profit on ordinary activities before tax	3,845	3,205
Tax on profit on ordinary activities	(1,076)	(955)
	2,769	2,250

Profit on ordinary activities after tax		
Minority interests (including non-equity interests)	(25)	(20)
Profit for the financial year attributable to the members of Barclays PLC	2,744	2,230
Dividends	(1,340)	(1,206)
Profit retained for the financial year	1,404	1,024

Selected financial statistics

Basic earnings per share	42.3p	33.7p
Diluted earnings per share	42.1p	33.4p
Dividends per ordinary share	20.50p	18.35p
Dividend payout ratio	48.5%	54.5%
Attributable profit as a percentage of:		
average shareholders funds	17.0%	14.7%
average total assets	0.6%	0.5%
Average United States Dollar exchange rate used in preparing the accounts	1.64	1.50
Average Euro exchange rate used in preparing the accounts	1.45	1.59

The financial information shown here is extracted from the published UK GAAP accounts for the years 2002 and 2003.

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Financial data

Consolidated balance sheet summary IFRS

As at 31st December

	2006	2005	2004[(a)]
	£m	£m	£m
Assets			
Cash and other short-term funds	**9,753**	5,807	3,525
Treasury bills and other eligible bills	**n/a**	n/a	6,658
Trading and financial assets designated at fair value	**292,464**	251,820	n/a
Derivative financial instruments	**138,353**	136,823	n/a
Debt securities and equity shares	**n/a**	n/a	141,710
Loans and advances to banks	**30,926**	31,105	80,632
Loans and advances to customers	**282,300**	268,896	262,409
Available for sale investments	**51,703**	53,497	n/a
Reverse repurchase agreements and cash collateral on securities borrowed	**174,090**	160,398	n/a
Property, plant and equipment	**2,492**	2,754	2,282
Other assets	**14,706**	13,257	40,965
Total assets	**996,787**	924,357	538,181
Liabilities			
Deposits and items in the course of collection due to banks	**81,783**	77,468	112,229
Customer accounts	**256,754**	238,684	217,492
Trading and financial liabilities designated at fair value	**125,861**	104,949	n/a
Liabilities to customers under investment contracts	**84,637**	85,201	n/a
Derivative financial instruments	**140,697**	137,971	n/a
Debt securities in issue	**111,137**	103,328	83,842
Repurchase agreements and cash collateral on securities lent	**136,956**	121,178	n/a
Insurance contract liabilities, including unit-linked liabilities	**3,878**	3,767	8,377
Subordinated liabilities	**13,786**	12,463	12,277
Other liabilities	**13,908**	14,918	87,200
Total liabilities	**969,397**	899,927	521,417
Shareholders equity			
Shareholders equity excluding minority interests	**19,799**	17,426	15,870
Minority interests	**7,591**	7,004	894
Total shareholders equity	**27,390**	24,430	16,764
Total liabilities and shareholders equity	**996,787**	924,357	538,181

Risk weighted assets and capital ratios

Risk weighted assets	**297,833**	269,148	218,601
Tier 1 ratio[b]	**7.7%**	7.0%	7.6%
Risk asset ratio[b]	**11.7%**	11.3%	11.5%

Selected financial statistics

Net asset value per ordinary share	**303p**	269p	246p
Year-end United States Dollar exchange rate used in preparing the accounts	**1.96**	1.72	1.92
Year-end Euro exchange rate used in preparing the accounts	**1.49**	1.46	1.41
Year-end Rand exchange rate used in preparing the accounts	**13.71**	10.87	10.86

Note 60 to the accounts provides a reconciliation of profit attributable to equity holders of the parent and shareholders equity between the amounts calculated under IFRS and US GAAP.

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

Notes

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

(b) Capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the Financial Services Authority (FSA). As at 1st January 2005 the tier 1 ratio was 7.1% and the risk asset ratio was 11.8% reflecting the impact of IFRS including the adoption of IAS 32, IAS 39 and IFRS 4.

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Consolidated balance sheet summary UK GAAP

As at 31st December

	2003	2002
	£m	£m
Assets		
Loans and advances to banks and customers	288,743	260,572
Other assets	139,818	129,136
	428,561	389,708
Infrastructure	6,624	6,015
	435,185	395,723
Retail life-fund assets attributable to policyholders	8,077	7,284
Total assets	443,262	403,007
Liabilities		
Deposits by banks, customer accounts and debt securities in issue	328,529	304,817
Other liabilities	77,660	64,067
	406,189	368,884
Capital resources		
Undated loan capital	6,310	6,678
Dated loan capital	6,029	4,859
Total subordinated liabilities	12,339	11,537
Minority interests	283	156
Shareholders equity excluding minority interests	16,374	15,146
Total shareholders equity	16,657	15,302
Total capital resources	28,996	26,839
	435,185	395,723
Retail life-fund liabilities attributable to policyholders	8,077	7,284
Total liabilities and shareholders equity	443,262	403,007

Risk weighted assets and capital ratios

	2003	2002
Risk weighted assets	188,997	172,748
Tier 1 ratio	7.9%	8.2%
Risk asset ratio	12.8%	12.8%

Selected financial statistics

	2003	2002
Net asset value per ordinary share	250p	230p
Year-end United States Dollar exchange rate used in preparing the accounts	1.78	1.61
Year-end Euro exchange rate used in preparing the accounts	1.41	1.54

The financial information shown here is extracted from the UK GAAP published accounts for the years 2002 and 2003.

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Financial review

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Financial review

Business description

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

Global Retail and Commercial Banking

- **UK Banking**, comprising:

  UK Retail Banking

  UK Business Banking

- **Barclaycard**

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

  International Retail and Commercial Banking-excluding Absa

  International Retail and Commercial Banking-Absa, first included with effect from 27th July 2005

Investment Banking and Investment Management

- **Barclays Capital**

- **Barclays Global Investors**

- **Barclays Wealth**

- **Barclays Wealth-closed life assurance activities**

Head office functions and other operations

UK Banking

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

UK Retail Banking

UK Retail Banking comprises Personal Customers, Home Finance, UK Premier and Local Business (formerly Small Business). This cluster of businesses aims to build broader and deeper relationships with customers. Personal Customers and Home Finance provide a wide range of products and services to retail customers, including current accounts, savings and investment products, mortgages branded Woolwich and general insurance. UK Premier provides banking, investment products and advice to affluent customers. Local Business provides banking services to small businesses.

UK Business Banking

UK Business Banking provides relationship banking to Barclays larger and medium business customers in the UK. Customers are served by a network of relationship and industry sector specialist managers who provide local access to an extensive range of products and services, as well as offering business information and support. Customers are also offered access to the products and expertise of other businesses in the Group, particularly Barclays Capital and Barclaycard. UK Business Banking provides asset financing and leasing solutions through a specialist business.

Barclaycard

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

In the UK, Barclaycard comprises Barclaycard, SkyCard and Monument branded credit cards, Barclays branded loans and FirstPlus secured lending. Barclaycard also manages card operations on behalf of Solution Personal Finance.

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

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

International Retail and Commercial Banking

International Retail and Commercial Banking provides Barclays personal and corporate customers outside the UK with banking services. The products and services offered to customers are tailored to meet the regulatory and commercial environments within each country. For reporting purposes from 2005, the operations have been grouped into two components: International Retail and Commercial Banking-excluding Absa and International Retail and Commercial Banking-Absa.

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

International Retail and Commercial Banking-excluding Absa

International Retail and Commercial Banking-excluding Absa provides a range of banking services, including current accounts, savings, investments, mortgages and loans to personal and corporate customers across Spain, Portugal, France, Italy, Africa and the Middle East.

International Retail and Commercial Banking-Absa

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

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Barclays Capital

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

Barclays Capital services a wide variety of client needs, from capital raising and managing foreign exchange, interest rate, equity and commodity risks, through to providing technical advice and expertise. Activities are organised into three principal areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets, sales, trading and research, prime services and equity products; Credit, which includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credit, as well as hybrid capital products, asset based finance, commercial mortgage backed securities, credit derivatives, structured capital markets and large asset leasing; and Private Equity. Barclays Capital includes Absa Capital, the investment banking business of Absa. Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

Barclays Global Investors

Barclays Global Investors (BGI) is one of the world s largest asset managers and a leading global provider of investment management products and services.

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products including hedge funds and provides related investment services such as securities lending, cash management and portfolio transition services. In addition, BGI is the global leader in assets and products in the exchange traded funds business, with over 190 funds for institutions and individuals trading in fifteen markets globally. BGI s investment philosophy is founded on managing all dimensions of performance: a consistent focus on controlling risk, return and cost. BGI collaborates with the other Barclays businesses, particularly Barclays Capital and Barclays Wealth, to develop and market products and leverage capabilities to better serve the client base.

Barclays Wealth

Barclays Wealth serves affluent, high net worth and intermediary clients worldwide, providing private banking, asset management, stockbroking, offshore banking, wealth structuring and financial planning services.

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

Barclays Wealth-closed life assurance activities

Barclays Wealth-closed life assurance activities comprise the closed life assurance businesses of Barclays and Woolwich in the UK.

Head office functions and other operations

Head office functions and other operations comprise:

- Head office and central support functions
- Businesses in transition
- Consolidation adjustments.

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

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

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

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Financial review

Group financial performance

The Group s profit before tax in 2006 increased 35% (£1,856m) to £7,136m (2005: £5,280m). Income increased 25% (£4,262m) to £21,595m (2005: £17,333m) whilst operating expenses rose 20% (£2,147m) to £12,674m (2005: £10,527m). Impairment charges rose 37% (£583m) to £2,154 (2005: £1,571m).

Earnings per share rose 32% to 71.9p (2005: 54.4p), diluted earnings per share rose 33% to 69.8p (2005: 52.6p). Dividends per share rose 17% to 31p (2005: 26.6p). Return on average shareholders funds was 25% (2005: 21%).

Business performance

In **UK Banking** strong growth in income enabled us to increase our profit before tax 17% to £2,578m. The improvement in the cost:income ratio was four percentage points in headline terms to 52% (2005: 56%).

UK Retail Banking delivered a 17% profit before tax increase to £1,213m. This was driven by broadly based income growth of 7%, with particularly strong performances in savings, Local Business and UK Premier and good growth in current accounts. Our mortgage market share and processing capacity also increased strongly leading to a net market share of 4% for the second half of the year. We doubled investment across the business. We focused on upgrading distribution capabilities, transforming the performance of the mortgage business, revitalising product offerings, and improving core operations and processes. The additional investment substantially offset the impact of property gains, leading to broadly flat costs. In 2007 we expect to make further significant investment, including the restructuring of the branch network and the migration of Woolwich customers.

UK Business Banking delivered very strong growth in profit before tax of 18% to £1,365m. Strong growth in loans and deposits drove income growth of 11%. Profit before business disposals grew 11%. UK Business Banking maintained its competitive position and also funded significant investment in improving its infrastructure and customer service.

At **Barclaycard** profit before tax fell 40% to £382m. Good income growth of 8%, driven by very strong momentum in Barclaycard International, was more than offset by a further rise in impairment charges, principally in the UK lending portfolios, and by higher costs, mainly as a result of continued investment in Barclaycard US. In the UK, high debt levels and changing attitudes to bankruptcy and debt default contributed to increased impairment charges. As the consumer lending market in the UK changes, Barclaycard is repositioning its business to achieve sustainable, profitable growth. Higher borrowing by UK consumers, lower disposable household incomes and a tougher regulatory environment have seen Barclaycard take a number of actions. The business focused on tighter lending criteria and improved collections throughout 2006 and, as a consequence, believes we have passed the worst in Barclaycard UK impairment in the second half of 2006. There has also been a review of some partnership businesses and lending to higher risk customers. An operational review is also under way, to improve efficiency and enhance Barclaycard s ability to provide the best service to customers, wherever they are in the world.

We continued to invest in Barclaycard US. Since we bought the business in December 2004, outstandings have grown from US$1.4bn to US$4.0bn, and cards in issue have increased from 1.1 million to 4.2 million. Income grew 73% in 2006. Barclaycard US is on track to become profitable in 2007.

International Retail and Commercial Banking achieved a step change in profitability to £1,270m (2005: £633m), reflecting the inclusion of Absa for a full year, the impact of corporate development activity and growth in key geographies.

International Retail and Commercial Banking excluding Absa achieved a profit before tax of £572m (2005: £335m), including a gain of £247m from the disposal of our interest in FirstCaribbean International Bank. Excluding this gain, profit before tax was £325m (2005: £335m). Good organic growth in the businesses across continental Europe was offset by incremental investment in distribution capacity and technology across the businesses in 2006. We expect to double the rate of investment in infrastructure and distribution in 2007.

International Retail and Commercial Banking Absa contributed £698m profit before tax in the first full year of ownership and is performing well ahead of our acquisition business case. Absa Group Limited achieved year on year growth in profit before tax of 24% in Rand terms, reflecting very strong growth in mortgages, credit cards and commercial property finance. The benefits of Barclays ownership are evident in 46% attributable earnings growth in both Absa Card and Absa Capital (reported in Barclays Capital), with total synergy benefits well ahead of plan.

Barclays Capital produced an outstanding performance with profit before tax rising 55% to £2,216m. Income growth of 39% was driven by doing more business with new and existing clients and was broadly based across asset classes and geographies. Growth was particularly strong in areas where we have invested in recent years, including commodities, equity products and credit derivatives. Profit growth was accompanied by improvements in productivity: income and profits grew significantly faster than Daily Value at Risk, risk weighted assets, economic capital, regulatory capital and costs. The ratio of compensation costs to net income improved two percentage points to 49% and the cost:net income ratio improved three percentage points to 64%. We continued to invest for future growth, increasing headcount 3,300 including 1,300 from the acquisition of HomEq, a US mortgage servicing business.

Barclays Global Investors delivered excellent results, with profit before tax up 32% to £714m. Income growth of 26% was attributable to increased management fees, particularly in the iShares and active businesses. Assets under management grew US$301bn to US$1.8trn, including net new assets of US$68bn, reflecting very strong inflows in iShares and active assets. The cost:income ratio improved two percentage points to 57%.

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Barclays Wealth profit before tax rose 28% to £213m.

This reflected broadly based income growth and favourable market conditions, partially offset by a significant increase in investment in people and infrastructure to build a platform for future growth. Total client assets increased 19% to £93bn. The cost:income ratio improved three percentage points to 79%.

In **Head office functions and other operations** the loss before tax decreased £64m to £259m, reflecting the Head office relocation costs incurred in 2005.

Goals

Barclays primary focus is to deliver superior value to its shareholders.

The primary goal remains to achieve top quartile total shareholder return (TSR) relative to a peer group of 11 other UK and international financial services institutions. TSR is defined as the value created for shareholders through share price appreciation, plus reinvested dividend payments. In 2004, we announced a new performance cycle TSR goal for the 2004 to 2007 period.

The TSR peer group is reviewed annually to ensure it aligns with our business mix and the direction and scale of our ambition. The peer group for 2006 was: ABN Amro, BBVA, BNP Paribas, Citigroup, Deutsche Bank, HBOS, HSBC, JP Morgan Chase, Lloyds TSB, Royal Bank of Scotland and UBS. For 2007 the peer group is unchanged.

For the first three years of the new goal period, from 31st December 2003 to 31st December 2006, Barclays was positioned sixth within its peer group, which is second quartile TSR performance.

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Overview

Analysis of results by business

For the year ended 31st December 2006

	UK Banking £m	Barclaycard £m	International Retail and Commercial Banking £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Barclays Wealth closed life assurance activities £m	Head office functions and other operations £m	Group £m
Net interest income	4,035	1,843	1,659	1,158	10	366	(8)	80	9,143
Net fee and commission income	1,861	1,054	1,303	952	1,651	665	50	(359)	7,177
Principal transactions[a]	30	15	194	4,135	4		156	42	4,576
Net premiums from insurance contracts	269	33	351				210	197	1,060
Other income	63		74	22		5	11	39	214
Total income	6,258	2,945	3,581	6,267	1,665	1,036	419	(1)	22,170
Net claims and benefits on insurance contracts	(35)	(8)	(244)				(288)		(575)
Total income, net of insurance claims	6,223	2,937	3,337	6,267	1,665	1,036	131	(1)	21,595
Impairment charges	(461)	(1,493)	(167)	(42)		(2)		11	(2,154)
Net income	5,762	1,444	3,170	6,225	1,665	1,034	131	10	19,441
Operating expenses	(3,265)	(1,054)	(2,196)	(4,009)	(951)	(821)	(109)	(269)	(12,674)
Share of post-tax results of associates and joint ventures	5	(8)	49						46
Profit on disposal of subsidiaries, associates and joint ventures	76		247						323
Profit before tax	2,578	382	1,270	2,216	714	213	22	(259)	7,136
As at 31st December 2006									
Total assets	139,902	27,628	68,848	657,922	80,515	7,285	7,605	7,082	996,787
Total liabilities	159,503	1,909	37,567	632,208	79,366	26,817	7,499	24,528	969,397

Note

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

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Financial review

Analysis of results by business

UK Banking

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

	2006	2005	2004[a]
	£m	£m	£m
Net interest income	4,035	3,744	3,348
Net fee and commission income	1,861	1,720	1,855
Net trading income	2		
Net investment income	28	26	
Principal transactions	30	26	
Net premiums from insurance contracts	269	280	249
Other income	63	33	43
Total income	6,258	5,803	5,495
Net claims and benefits on insurance contracts	(35)	(58)	(46)
Total income, net of insurance claims	6,223	5,745	5,449
Impairment charges	(461)	(327)	(188)
Net income	5,762	5,418	5,261
Operating expenses excluding amortisation of intangible assets	(3,263)	(3,212)	(3,220)
Amortisation of intangible assets	(2)	(3)	(2)
Operating expenses	(3,265)	(3,215)	(3,222)
Share of post-tax results of associates and joint ventures	5	(3)	5
Profit on disposal of subsidiaries, associates and joint ventures	76		42
Profit before tax	2,578	2,200	2,086
Cost:income ratio	52%	56%	59%
Cost:net income ratio	57%	59%	61%
Risk Tendency	£ 515m	£ 430m	£ 360m
	2006	2005	2004
Loans and advances to customers	£ 123.9bn	£ 118.2bn	£ 106.7bn
Customer accounts	£ 142.4bn	£ 129.7bn	£ 111.1bn
Total assets	£ 139.9bn	£ 130.3bn	£ 114.9bn
Risk weighted assets	£ 84.9bn	£ 79.9bn	£ 80.5bn

Note

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

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2006/05

UK Banking profit before tax increased 17% (£378m) to £2,578m (2005: £2,200m) driven principally by good income growth. Profit before business disposals of £76m grew 14% (£302m) to £2,502m (2005: £2,200m).

2005/04

UK Banking profit before tax in 2005 increased 5% (£114m) to £2,200m (2004: £2,086m) driven by good income growth and strong cost management.

The cost:income ratio improved by three percentage points to 56% (2004: 59%).

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Financial review

Analysis of results by business

UK Retail Banking

UK Retail Banking comprises Personal Customers, Home Finance, UK Premier and Local Business (formerly Small Business). This cluster of businesses aims to build broader and deeper relationships with customers. Personal Customers and Home Finance provide a wide range of products and services to retail customers, including current accounts, savings and investment products, mortgages branded Woolwich and general insurance. UK Premier provides banking, investment products and advice to affluent customers. Local Business provides banking services to small businesses.

	2006	2005	2004[a]
	£m	£m	£m
Net interest income	2,333	2,208	2,107
Net fee and commission income	1,219	1,131	1,149
Net trading income			
Net investment income		9	
Principal transactions		9	
Net premiums from insurance contracts	269	280	249
Other income	42	16	29
Total income	3,863	3,644	3,534
Net claims and benefits on insurance contracts	(35)	(58)	(46)
Total income net of insurance claims	3,828	3,586	3,488
Impairment charges	(209)	(150)	(69)
Net income	3,619	3,436	3,419
Operating expenses excluding amortisation of intangible assets	(2,407)	(2,390)	(2,461)
Amortisation of intangible assets	(1)		
Operating expenses	(2,408)	(2,390)	(2,461)
Share of post-tax results of associates and joint ventures	2	(6)	2
Profit on disposal of subsidiaries, associates and joint ventures			42
Profit before tax	1,213	1,040	1,002
Cost:income ratio	63%	67%	71%
Cost:net income ratio	67%	70%	72%
Risk Tendency	£ 225m	£ 180m	£ 160m

	2006	2005	2004
Loans and advances to customers	**£ 67.6bn**	£ 64.8bn	£ 66.7bn
Customer accounts	**£ 85.0bn**	£ 78.8bn	£ 73.6bn
Total assets	**£ 74.0bn**	£ 70.4bn	£ 72.7bn
Risk weighted assets	**£ 34.9bn**	£ 32.8bn	£ 38.2bn

Note

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

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2006/05

UK Retail Banking profit before tax increased 17% (£173m) to £1,213m (2005: £1,040m), driven by good income growth and well controlled costs. There has been substantial additional investment to transform the business.

Income increased 7% (£242m) to £3,828m (2005: £3,586m). Income growth was broadly based. There was strong income growth in Personal Customers retail savings, Local Business and UK Premier and good growth in Personal Customers current account income. Sales volumes increased, with a particularly strong performance from direct channels.

Net interest income increased 6% (£125m) to £2,333m (2005: £2,208m). Growth was driven by a higher contribution from deposits, through a combination of good balance sheet growth and a stable liability margin. Total average customer deposit balances increased 8% to £79.2bn (2005: £73.5bn), supported by new products. Growth of personal savings was above that of the market.

Mortgage volumes improved significantly, driven by a focus on improving capacity, customer service, value and promotion. UK residential mortgage balances ended the year at £61.9bn (2005: £59.6bn). Gross advances were 60% higher at £18.4bn (2005: £11.5bn), with a market share of 5% (2005: 4%). Net lending was £2.4bn, with performance improving during the year, leading to a market share of 4% in the second half of the year. The mortgage margin was reduced by changed assumptions used in the calculation of effective interest rates, a higher proportion of new mortgages and base rate changes. The new business spread was in line with the industry. The loan to value ratio within the residential mortgage book on a current valuation basis was 34% (2005: 35%).

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

Net fee and commission income increased 8% (£88m) to £1,219m (2005: £1,131m). There was strong current account income growth in Personal Customers and Local Business. UK Premier delivered strong growth reflecting higher income from banking services, mortgage sales and investment advice.

Net premiums from insurance underwriting activities decreased 4% (£11m) to £269m (2005: £280m). There continued to be lower customer take-up of loan protection insurance. Net claims and benefits on insurance contracts improved to £35m (2005: £58m). Other income increased £26m to £42m (2005: £16m), principally representing the benefit from reinsurance.

Impairment charges increased 39% (£59m) to £209m (2005: £150m). The increase principally reflected balance growth and some deterioration in delinquency rates in the Local Business loan book. Losses from the mortgage portfolio remained negligible, with arrears at low levels.

Operating expenses were steady at £2,408m (2005: £2,390m). Substantially all of the gains from the sale and leaseback of property of £253m have been reinvested in the business to improve customer service and deliver sustainable performance improvements. Around half of the incremental investment was directed at upgrading distribution capabilities, including restructuring and improving the branch network. Further investment was focused on upgrading the contact centres, transforming the performance of the mortgage business, revitalising the retail product range to meet customers needs, improving core operations and processes and rationalising the number of operating sites. The level of investment reflected in operating expenses in 2006 was approximately double the level of 2005.

The cost:income ratio improved four percentage points to 63% (2005: 67%).

2005/04

Profit before tax increased 4% (£38m) in 2005 to £1,040m (2004: £1,002m). Profit before tax increased 8% excluding the impact of £42m profit on business disposals in 2004.

Income increased 3% (£98m) to £3,586m (2004: £3,488m). There was good growth in Personal Customer current accounts, Local Business and UK Premier, whilst income from Personal Customers retail savings was weaker. The application of IAS 32 and IAS 39 from 1st January 2005 resulted in the reclassification of certain lending related fees from net fee and commission income to net interest income.

Net interest income increased 5% (£101m) to £2,208m (2004: £2,107m). Growth was driven by higher contributions from Home Finance and Local Business, partly offset by some margin pressure on savings and deposits.

UK residential mortgage balances ended the period at £59.6bn (2004: £61.7bn). Total average customer deposit balances increased 5% to £73.5bn (2004: £69.7bn).

Net fee and commission income decreased 2% (£18m) to £1,131m (2004: £1,149m) with lending related fees impacted by the application of IAS 32 and IAS 39 from 1st January 2005.

Income from principal transactions was £9m (2004: £nil) representing the gain on the sale of the investment in Gresham, an insurance underwriting business.

Net premiums from insurance underwriting activities increased 12% (£31m) to £280m (2004: £249m). In 2004 there was a provision relating to the early termination of contracts. Excluding this provision, there was a slight underlying reduction in net premiums.

Impairment charges increased 117% (£81m) to £150m (2004: £69m). Excluding UK mortgage releases of £10m (2004: £40m), impairment charges increased 47%, reflecting some deterioration in the delinquencies experience and balance growth in overdrafts and Local Business.

Operating expenses decreased 3% (£71m) to £2,390m (2004: £2,461m). The cost:income ratio improved four percentage points to 67% (2004: 71%).

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Analysis of results by business

UK Business Banking

UK Business Banking provides relationship banking to Barclays larger and medium business customers in the UK. Customers are served by a network of relationship and industry sector specialist managers who provide local access to an extensive range of products and services, as well as offering business information and support. Customers are also offered access to the products and expertise of other businesses in the Group, particularly Barclays Capital and Barclaycard. UK Business Banking provides asset financing and leasing solutions through a specialist business.

	2006	2005	2004[a]
	£m	£m	£m
Net interest income	1,702	1,536	1,241
Net fee and commission income	642	589	706
Net trading income	2		
Net investment income	28	17	
Principal transactions	30	17	
Other income	21	17	14
Total income	2,395	2,159	1,961
Impairment charges	(252)	(177)	(119)
Net income	2,143	1,982	1,842
Operating expenses excluding amortisation of intangible assets	(856)	(822)	(759)
Amortisation of intangible assets	(1)	(3)	(2)
Operating expenses	(857)	(825)	(761)
Share of post-tax results of associates and joint ventures	3	3	3
Profit on disposal of subsidiaries, associates and joint ventures	76		
Profit before tax	1,365	1,160	1,084
Cost:income ratio	36%	38%	39%
Cost:net income ratio	40%	42%	41%
Risk Tendency	£ 290m	£ 250m	£ 200m

	2006	2005	2004
Loans and advances to customers	£ 56.3bn	£ 53.4bn	£ 40.0bn
Customer accounts	£ 57.4bn	£ 50.9bn	£ 37.5bn

Total assets	**£ 65.9bn**	£ 59.9bn	£ 42.2bn
Risk weighted assets	**£ 50.0bn**	£ 47.1bn	£ 42.3bn

Note

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

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2006/05

UK Business Banking profit before tax increased 18% (£205m) to £1,365m (2005: £1,160m), driven by continued strong income growth. UK Business Banking maintained its market share of primary customer relationships. The 2006 result included a £23m (2005: £13m) contribution from a full year consolidation of Iveco Finance, in which a 51% stake was acquired on 1st June 2005, and a £76m (2005: £nil) contribution from business disposals. Profit before business disposals of £76m increased 11% to £1,289m (2005: £1,160m).

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

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

Net fee and commission income increased 9% (£53m) to £642m (2005: £589m). There was a strong rise in income from foreign exchange and derivatives business transacted through Barclays Capital on behalf of Business Banking customers.

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

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

Operating expenses increased 4% (£32m) to £857m (2005: £825m). Cost growth reflected higher volumes, increased expenditure on front line staff and the costs of Iveco Finance for a full year. Operating expenses included a gain of £60m on the sale and leaseback of property, of which approximately half was reinvested in the business, including costs relating to the acceleration of the rationalisation of operating sites and technology infrastructure.

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

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

2005/04

Profit before tax increased 7% (76m) to £1,160m (2004: £1,084m), driven by strong income growth.

Both Larger Business and Medium Business performed well.

Income increased 10% (£198m) to £2,159m (2004: £1,961m), driven by strong balance sheet growth. The application of IAS 32 and IAS 39 from 1st January 2005 resulted in the reclassification of certain lending related fees from net fee and commission income to net interest income. Excluding the impact of IAS 32 and IAS 39, both net interest income and net fee and commission income continued to grow.

Impairment charges increased 49% (£58m) to £177m (2004: £119m). Excluding the impact of a £57m recovery in 2004, the impairment charge was broadly stable.

Operating expenses increased 8% (£64m) to £825m (2004: £761m), reflecting volume growth, increased expenditure on frontline staff and the costs of Iveco Finance since acquisition.

The cost:income ratio improved one percentage point to 38% (2004: 39%).

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Financial review

Analysis of results by business

Barclaycard

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

In the UK, Barclaycard comprises Barclaycard, SkyCard and Monument branded credit cards, Barclays branded loans and FirstPlus secured lending. Barclaycard also manages card operations on behalf of Solution Personal Finance.

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

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

	2006	2005	2004[a]
	£m	£m	£m
Net interest income	**1,843**	1,726	1,587
Net fee and commission income	**1,054**	972	790
Net investment income	**15**		
Net premiums from insurance contracts	**33**	24	22
Total income	**2,945**	2,722	2,399
Net claims and benefits on insurance contracts	**(8)**	(7)	(5)
Total income net of insurance claims	**2,937**	2,715	2,394
Impairment charges	**(1,493)**	(1,098)	(761)
Net income	**1,444**	1,617	1,633
Operating expenses excluding amortisation of intangible assets	**(1,037)**	(961)	(804)
Amortisation of intangible assets	**(17)**	(17)	(3)
Operating expenses	**(1,054)**	(978)	(807)
Share of post-tax results of associates and joint ventures	**(8)**	1	4
Profit before tax	**382**	640	830
Cost:income ratio	**36%**	36%	34%
Cost:net income ratio	**73%**	60%	49%
	£ 1,410m	£ 1,100m	£ 860m

Risk Tendency

	2006	2005	2004
Loans and advances to customers	**£25.5bn**	£24.0bn	£ 22.3bn
Total assets	**£27.6bn**	£25.8bn	£ 23.4bn
Risk weighted assets	**£25.2bn**	£21.8bn	£ 20.2bn

Note

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

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2006/05

Barclaycard profit before tax decreased 40% (£258m) to £382m (2005: £640m) as good income growth was more than offset by higher impairment charges and increased costs from the continued development of international businesses.

Income increased 8% (£222m) to £2,937m (2005: £2,715m). Growth was driven by very strong momentum in the United States and by strong performances in Barclaycard Business, FirstPlus, SkyCard and continental European markets.

Net interest income increased 7% (£117m) to £1,843m (2005: £1,726m). UK average extended credit card balances fell 7% to £8.0bn (2005: £8.6bn), reflecting the impact of tighter lending criteria. UK average consumer lending balances increased 16% to £11.9bn (2005: £10.3bn) driven by secured lending in FirstPlus. International average extended credit card balances rose 39% to £2.5bn (2005: £1.8bn).

Net fee and commission income increased 8% (£82m) to £1,054m (2005: £972m) as a result of increased contributions from Barclaycard International, SkyCard, FirstPlus and Barclaycard Business. Barclaycard reduced its late and overlimit fee charges in the UK on 1st August 2006 in response to the Office of Fair Trading s findings.

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

Impairment charges increased 36% (£395m) to £1,493m (2005: £1,098m). The increase was driven by a rise in delinquent balances and increased numbers of bankruptcies and Individual Voluntary Arrangements. As a result of management action in 2005 and 2006 to tighten lending criteria and improve collection processes, the flows of new delinquencies reduced, and levels of arrears balances declined in the second half of 2006 in UK cards and unsecured loans.

Operating expenses increased 8% (£76m) to £1,054m (2005: £978m). This included a £38m gain from the sale and leaseback of property. Excluding this item, operating expenses increased 12% (£114m) to £1,092m. This was largely as a result of continued investment in Barclaycard International, particularly Barclaycard US, and the development of UK partnerships.

Barclaycard International continued its growth strategy in the continental European business delivering solid results. The Entercard joint venture, which is based in Scandinavia, performed ahead of plan. Barclaycard International loss before tax reduced to £30m (2005: loss £37m), including the loss before tax for Barclaycard US of £56m (2005: loss £59m). Barclaycard US continued to perform ahead of expectations, delivering very strong growth in balances and customer numbers and creating a number of new partnerships including US Airways, Barnes & Noble, Travelocity and Jo-Ann Stores.

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

2005/04

Barclaycard profit before tax decreased 23% (£190m) to £640m (2004: £830m). Excluding Barclaycard US loss before tax of £59m, profit before tax fell 16% (£131m) to £699m.

Income increased 13% (£321m) to £2,715m (2004: £2,394m) driven by good performances across the diversified UK cards and loans businesses and Barclaycard Business, and by very strong momentum in international cards. Excluding Barclaycard US income of £117m, income increased 9%.

Net interest income increased 9% (£139m) to £1,726m (2004: £1,587m) as a result of growth in average balances.

UK average extended credit balances rose 5% to £8.6bn (2004: £8.2bn) and international average extended credit balances doubled to £1.8bn (2004: £0.9bn). Excluding Barclaycard US average extended credit balances of £0.9bn, international average extended credit balances increased 26%.

Net fee and commission income increased 23% (£182m) to £972m (2004: £790m) as a result of the inclusion of Barclaycard US and increased contributions from Barclaycard Business and FirstPlus. Excluding the impact of IAS 32 and IAS 39, net fee and commission income increased 16%.

Impairment charges increased 44% (£337m) to £1,098m (2004: £761m). The increase was driven by a rise in delinquent balances, lower rates of recovery from customers, the inclusion of Barclaycard US, and an increase in the size of the average loan book. Excluding Barclaycard US impairment charges of £53m, impairment charges increased 38%.

Operating expenses rose 21% (£171m) to £978m (2004: £807m), mostly as a result of the inclusion of Barclaycard US. Excluding Barclaycard US operating expenses of £111m, operating expenses rose 7% reflecting continued investment in the UK and continental European card businesses and the development of the UK Partnerships business.

Barclaycard International performed strongly, with Germany and Spain delivering excellent results. The loss before tax for Barclaycard International was £37m (2004: loss of £6m). Excluding Barclaycard US, Barclaycard International profit before tax was £22m (2004: £8m), with income ahead 22%. The loss before tax for Barclaycard US was £59m (2004: loss of £2m).

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Financial review

Analysis of results by business

International Retail and Commercial Banking

International Retail and Commercial Banking provides Barclays personal and corporate customers outside the UK with banking services.

The products and services offered to customers are tailored to meet the regulatory and commercial environments within each country. For reporting purposes from 2005, the operations have been grouped into two components: International Retail and Commercial Banking excluding Absa and International Retail and Commercial Banking Absa.

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

	2006 £m	2005 £m	2004[(a)] £m
Net interest income	**1,659**	1,050	529
Net fee and commission income	**1,303**	705	288
Net trading income	**6**	3	
Net investment income	**188**	143	135
Principal transactions	**194**	146	135
Net premiums from insurance contracts	**351**	227	300
Other income	**74**	60	25
Total income	**3,581**	2,188	1,277
Net claims and benefits on insurance contracts	**(244)**	(205)	(390)
Total income net of insurance claims	**3,337**	1,983	887
Impairment charges	**(167)**	(32)	(31)
Net income	**3,170**	1,951	856
Operating expenses excluding amortisation of intangible assets	**(2,111)**	(1,317)	(616)
Amortisation of intangible assets	**(85)**	(47)	(1)
Operating expenses	**(2,196)**	(1,364)	(617)
Share of post-tax results of associates and joint ventures	**49**	46	49
Profit on disposal of subsidiaries, associates and joint ventures	**247**		
Profit before tax	**1,270**	633	288
Cost:income ratio	**66%**	69%	70%
Cost:net income ratio	**69%**	70%	72%
	£ 220m	£ 175m	£ 65m

Risk Tendency

	2006	2005	2004
Loans and advances to customers	**£ 53.5bn**	£ 49.3bn	£ 20.7bn
Customer accounts	**£ 22.5bn**	£ 22.6bn	£ 10.1bn
Total assets	**£ 68.9bn**	£ 63.6bn	£ 28.5bn
Risk weighted assets	**£ 41.1bn**	£ 41.2bn	£ 19.3bn

Note

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

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2006/05

International Retail and Commercial Banking profit before tax increased £637m to £1,270m (2005: £633m). The increase reflected the inclusion of a full year s profit before tax from International Retail and Commercial Banking Absa of £698m (2005[a]: £298m) and a profit of £247m on the disposal of Barclays interest in FirstCaribbean International Bank.

2005/04

International Retail and Commercial Banking profit before tax increased £345m to £633m (2004: £288m). The increase reflected the inclusion of profit before tax from International Retail and Commercial Banking Absa of £298m[a] and strong organic growth in Africa and Europe.

From 1st January 2005, following the application of IAS 39 and IFRS 4, life assurance products are divided into investment contracts and insurance contracts. Investment income from assets backing insurance contracts, and the corresponding movement in investment contract liabilities, has been presented on a net basis in other income.

In addition, these standards have impacted the reporting of net claims and benefits paid.

Note

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

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Analysis of results by business

International Retail and Commercial Banking excluding Absa

International Retail and Commercial Banking excluding Absa provides a range of banking services, including current accounts, savings, investments, mortgages and loans to personal and corporate customers across Spain, Portugal, France, Italy, Africa and the Middle East.

	2006	2005	2004[a]
	£m	£m	£m
Net interest income	610	562	529
Net fee and commission income	448	377	288
Net trading income	17	31	
Net investment income	66	88	135
Principal transactions	83	119	135
Net premiums from insurance contracts	111	129	300
Other income	20	23	25
Total income	1,272	1,210	1,277
Net claims and benefits on insurance contracts	(138)	(161)	(390)
Total income net of insurance claims	1,134	1,049	887
Impairment charges	(41)	(13)	(31)
Net income	1,093	1,036	856
Operating expenses excluding amortisation of intangible assets	(799)	(734)	(616)
Amortisation of intangible assets	(9)	(6)	(1)
Operating expenses	(808)	(740)	(617)
Share of post-tax results of associates and joint ventures	40	39	49
Profit on disposal of subsidiaries, associates and joint ventures	247		
Profit before tax	572	335	288
Cost:income ratio	71%	71%	70%
Cost:net income ratio	74%	71%	72%
Risk Tendency	£ 75m	£ 75m	£ 65m

	2006	2005	2004
Loans and advances to customers	£ 29.3bn	£ 25.4bn	£ 20.7bn
Customer accounts	£ 11.4bn	£ 10.4bn	£ 10.1bn
Total assets	£ 38.5bn	£ 34.2bn	£ 28.5bn

Risk weighted assets	**£ 20.4bn**	£ 20.4bn	£ 19.3bn

Note

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

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2006/05

International Retail and Commercial Banking excluding Absa profit before tax increased 71% (£237m) to £572m (2005: £335m), including a gain on the disposal of the interest in FirstCaribbean International Bank of £247m. Profit before business disposals was £325m (2005: £335m). This reflected good growth in continental Europe offset by a decline in profits in Africa caused by higher impairment, and increased costs reflecting a step change in the rate of organic investment in the business.

Income increased 8% (£85m) to £1,134m (2005: £1,049m). Excluding gains from asset sales of £31m in 2005, income increased 11% (£116m) to £1,134m (2005: £1,018m).

Net interest income increased 9% (£48m) to £610m (2005: £562m), reflecting strong balance sheet growth in continental Europe, Africa and the Middle East, and the development of the corporate business in Spain.

Total average customer loans increased 20% to £27.4bn (2005: £22.9bn). Mortgage balance growth in continental Europe was particularly strong, with average Euro balances up 22%. There was a modest decline in lending margins partly driven by a greater share of mortgage assets as a proportion of the total book in continental Europe. Average customer deposits increased 17% to £10.8bn (2005: £9.2bn), with deposit margins stable.

Net fee and commission income increased 19% (£71m) to £448m (2005: £377m). This reflected a strong performance from the Spanish funds business, where average assets under management increased 11%, together with very strong growth in France, including the first full year contribution of the ING Ferri business which was acquired on 1st July 2005. Net fee and commission income showed solid growth in Africa and the Middle East.

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

Impairment charges increased £28m to £41m (2005: £13m). This reflected the absence of one-off recoveries of £12m which arose in 2005 in Africa and the Middle East, and strong balance sheet growth across the businesses.

Operating expenses increased 9% (£68m) to £808m (2005: £740m). This included gains from the sale and leaseback of property in Spain of £55m, just under half of which were reinvested in staff restructuring and upgrading infrastructure. Excluding these net gains of £32m, operating expenses increased 14% to £840m (2005: £740m). The increase also included incremental investment expenditure of £25m to expand the distribution network and enhance IT and operational capabilities.

Barclays Spain continued to perform strongly. Profit before tax increased 74% (£68m) to £160m (2005: £921m). Excluding net one-off gains on asset sales of £32m (2005: £8m) and integration costs of £43m (2005: £57m) profit before tax increased 21% (£30m) to £171m (2005: £141m). This was driven by the continued realisation of benefits from Banco Zaragozano, together with good growth in mortgages and assets under management.

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

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

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

2005/04

International Retail and Commercial Banking excluding Absa performed strongly, with profit before tax increasing 16% (£47m) to £335m (2004: £288m). The performance was broad-based, featuring stronger profits in all geographies.

Income increased 18% (£162m) to £1,049m (2004: £887m).

Net interest income increased 6% (£33m) to £562m (2004: £529m), reflecting strong balance sheet growth in Europe, Africa and the Middle East, and the development of the corporate businesses in Spain.

Total average customer loans increased 28% to £22.9bn (2004: £17.8bn). Mortgage balance growth in continental Europe was particularly strong with average euro balances up 25%.

Net fee and commission income increased 31% (£89m) to £377m (2004: £288m). This reflected a strong performance from the Spanish funds business, where assets under management increased 15%, together with good growth in France, including the contribution of the ING Ferri business which was acquired on 1st July 2005.

Principal transactions reduced to £119m (2004: £135m), reflecting the change in accounting for insurance business, partly offset by investment realisations during 2005 including a gain of £23m from the redemption of preference shares in FirstCaribbean International Bank.

Impairment charges decreased 58% (£18m) to £13m (2004: £31m).

Operating expenses increased 20% (£123m) to £740m (2004: £617m). The increase was in line with the growth in income, and was due to higher integration costs in Spain, the continued expansion of the business in Africa and the Middle East, investments in the European distribution network, particularly in Portugal and Italy, and the acquisition of the ING Ferri business in France. The cost:income ratio remained stable at 71% (2004: 70%).

Barclays Spain performed very strongly with profit before tax, excluding integration costs, up 19% to £149m (2004: £125m). Including integration costs of £57m (2004: £42m), profit before tax was up 11% to £92m (2004: £83m).

Africa and the Middle East profit before tax increased 10% to £138m (2004: £125m) reflecting continued investment and balance sheet growth across the businesses.

The post-tax profit from associates decreased £10m to £39m (2004: £49m) due to a lower contribution from FirstCaribbean International Bank.

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Analysis of results by business

International Retail and Commercial Banking Absa

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

	2006 £m	2005[a] £m
Net interest income	1,049	488
Net fee and commission income	855	328
Net trading income	(11)	(28)
Net investment income	122	55
Principal transactions	111	27
Net premiums from insurance contracts	240	98
Other income	54	37
Total income	2,309	978
Net claims and benefits on insurance contracts	(106)	(44)
Total income net of insurance claims	2,203	934
Impairment charges	(126)	(19)
Net income	2,077	915
Operating expenses excluding amortisation of intangible assets	(1,312)	(583)
Amortisation of intangible assets	(76)	(41)
Operating expenses	(1,388)	(624)
Share of post-tax results of associates and joint ventures	9	7
Profit before tax	698	298
Cost:income ratio	63%	67%
Cost:net income ratio	67%	68%
Risk Tendency	£ 145m	£ 100m

	2006	2005
Loans and advances to customers	£ 24.2bn	£ 23.9bn
Customer accounts	£ 11.1bn	£ 12.2bn
Total assets	£ 30.4bn	£ 29.4bn

Risk weighted assets	**£ 20.7bn**	£ 20.8bn

Note

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

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2006/05

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

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Analysis of results by business

Barclays Capital

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

Barclays Capital services a wide variety of client needs, from capital raising and managing foreign exchange, interest rate, equity and commodity risks, through to providing technical advice and expertise. Activities are organised into three principal areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets, sales, trading and research, prime services and equity products; Credit, which includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credit, as well as hybrid capital products, asset-based finance, commercial mortgage backed securities, credit derivatives, structured capital markets and large asset leasing; and Private Equity. Barclays Capital includes Absa Capital, the investment banking business of Absa. Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

	2006	2005	2004[(a)]
	£m	£m	£m
Net interest income	1,158	1,065	1,068
Net fee and commission income	952	776	670
Net trading income	3,562	2,231	1,463
Net investment income	573	413	302
Principal transactions	4,135	2,644	1,765
Other income	22	20	15
Total income	6,267	4,505	3.518
Impairment charge	(42)	(111)	(106)
Net income	6,225	4,394	3,412
Operating expenses excluding amortisation of intangible assets	(3,996)	(2,961)	(2,270)
Amortisation of intangible assets	(13)	(2)	
Operating expenses	(4,009)	(2,963)	(2,270)
Profit before tax	2,216	1,431	1,142
Cost:income ratio	64%	66%	65%
Cost:net income ratio	64%	67%	67%
Compensation:net income ratio	49%	51%	50%
Risk Tendency	£ 95m	£ 110m	£ 75m
Average DVaR	£ 37.1m	£ 32.0m	£ 34.3m
Average net income generated per member of staff (000)	£ 560	£ 498	£ 490

	2006	2005	2004
Total assets	£ 657.9bn	£ 601.2bn	£ 353.2bn
Risk weighted assets	£ 137.6bn	£ 116.7bn	£ 90.1bn
Corporate lending portfolio	£ 40.6bn	£ 40.1bn	£ 24.3bn

Note

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

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2006/05

Barclays Capital delivered record profit before tax and net income. Profit before tax increased 55% (£785m) to £2,216m (2005: £1,431m). This was the result of a very strong income performance, driven by higher business volumes, continued growth in client activity and favourable market conditions. Net income increased 42% (£1,831m) to £6,225m (2005: £4,394m). Profit before tax for Absa Capital was £71m (2005[(a)]: £39m). Excluding Absa Capital, profit before tax increased 54%.

Income increased 39% (£1,762m) to £6,267m (2005: £4,505m) as a result of very strong growth across the Rates, Credit and Private Equity businesses. Income increased in all geographic regions with significant contributions outside the UK from the US, continental Europe and Asia. The top line performance reflected returns from past investments and the strength of the global client franchise. Average DVaR increased 16% to £37.1m (2005: £32.0m) significantly below the rate of income growth.

Secondary income, comprising principal transactions (net trading income and net investment income) and net interest income, is mainly generated from providing client financing and risk management solutions. Secondary income increased 43% (£1,584m) to £5,293m (2005: £3,709m).

Net trading income increased 60% (£1,331m) to £3,562m (2005: £2,231m) with very strong contributions across the Rates and Credit businesses, in particular, commodities, fixed income, equities, credit derivatives and emerging markets. The performance was driven by higher volumes of client led activity and favourable market conditions. Net investment income increased 39% (£160m) to £573m (2005: £413m) driven by investment realisations, primarily in Private Equity, offset by reduced contributions from credit products. Net interest income increased 9% (£93m) to £1,158m (2005: £1,065m) driven by a full year contribution from Absa Capital. Corporate lending remained flat at £40.6bn (2005: £40.1bn).

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

Impairment charges of £42m (2005: £111m), including impairment on available for sale assets of £83m (2005: £nil), were 62% lower than prior year reflecting recoveries and the continued benign wholesale credit environment.

Operating expenses increased 35% (£1,046m) to £4,009m (2005: £2,963m), reflecting higher performance related costs, increased levels of activity and continued investment across the business. The cost:net income ratio improved to 64% (2005: 67%) and the compensation to net income ratio improved to 49% (2005: 51%). Performance related pay, discretionary investment spend and short-term contractor resource costs represented 50% of operating expenses (2005: 46%). Amortisation of intangible assets principally relates to mortgage service rights obtained as part of the purchase of HomEq, a US mortgage servicing business acquired on 1st November 2006.

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

Note

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

2005/04

Profit before tax increased 25% (£289m) to £1,431m (2004: £1,142m). Net income increased 29% (£982m) to £4,394m (2004: £3,412m).

Income increased 28% (£987m) to £4,505m (2004: £3,518m). Income by asset category and geography was broadly based. Areas of investment in 2004, such as commodities, commercial mortgage backed securities and equity derivatives, performed well, delivering significant income growth. Market risk was well controlled with average DVaR falling 7% to £32.0m (2004: £34.3m) as a result of increased diversification across asset classes.

Secondary income increased 31% (£876m) to £3,709m (2004: £2,833m).

Net trading income increased 52% (£768m) to £2,231m (2004: £1,463m). Net investment income increased 37% (£111m) to £413m (2004: £302m), driven by realisations from credit products. Net interest income was flat at £1,065m (2004: £1,068m), reflecting flattening yield curves and the impact of IAS 32 and IAS 39.

Primary income grew 16% (£106m) to £776m (2004: £670m).

Impairment charges of £111m (2004: £106m) were in line with the prior year reflecting the stable wholesale credit environment.

Operating expenses increased 31% (£693m) to £2,963m (2004: £2,270m), reflecting higher business volumes and the ongoing costs associated with staff hired during 2004 and 2005 as part of the business expansion plan. Performance related costs increased due to the strong profit performance. Investment expenditure, primarily in the front office, continued to be significant although less than 2004 as headcount growth slowed. The cost:net income ratio remained stable at 67%.

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Analysis of results by business

Barclays Global Investors

Barclays Global Investors (BGI) is one of the world s largest asset managers and a leading global provider of investment management products and services.

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products including hedge funds and provides related investment services such as securities lending, cash management and portfolio transition services. In addition, BGI is the global leader in assets and products in the exchange traded funds business, with over 190 funds for institutions and individuals trading in 15 markets globally. BGI s investment philosophy is founded on managing all dimensions of performance: a consistent focus on controlling risk, return and cost. BGI collaborates with the other Barclays businesses, particularly Barclays Capital and Barclays Wealth, to develop and market products and leverage capabilities to better serve the client base.

	2006 £m	2005 £m	2004[(a)] £m
Net interest income	**10**	15	5
Net fee and commission income	**1,651**	1,297	882
Net trading income	**2**	2	3
Net investment income	**2**	4	3
Principal transactions	**4**	6	6
Total income	**1,665**	1,318	893
Operating expenses excluding amortisation of intangible assets	**(946)**	(775)	(555)
Amortisation of intangible assets	**(5)**	(4)	(1)
Operating expenses	**(951)**	(779)	(556)
Share of post-tax results of associates and joint ventures		1	(2)
Profit on disposal of subsidiaries, associates and joint ventures			1
Profit before tax	**714**	540	336
Cost:income ratio	**57%**	59%	62%
Average income generated per member of staff (000)	**£ 666**	£ 628	£ 464

	2006	2005	2004
Total assets	**£ 80.5bn**	£ 80.9bn	£ 1.0bn
Risk weighted assets	**£ 1.4bn**	£ 1.5bn	£ 1.2bn

Note

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

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2006/05

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

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

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

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

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

2005/04

Barclays Global Investors delivered a year of outstanding financial results in 2005. The performance was spread across a diverse range of products, distribution channels and geographies. Profit before tax increased 61% (£204m) to £540m (2004: £336m) reflecting substantial income growth and focused investment spend.

Net fee and commission income increased 47% (£415m) to £1,297m (2004: £882m), driven by significant increases in management, incentive and securities lending revenues.

Investment performance remained very good for the majority of active funds as they outperformed their respective benchmarks.

Operating expenses increased 40% (£223m) to £779m (2004: £556m) as a result of higher performance-based expenses, significant investment in key growth initiatives and ongoing investment in infrastructure required to support business growth. The cost:income ratio improved to 59% (2004: 62%).

Total assets under management increased 24% (£172bn) to £881bn (2004: £709bn). The growth included £48bn of net new assets, £53bn attributable to favourable exchange rate movements and £71bn as a result of market movements. In US$ terms, the increase in assets under management to US$1,513bn from US$1,362bn (2004) included US$88bn of net new assets and US$121bn of market movements, partially offset by adverse exchange rate movements of US$58bn.

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Analysis of results by business

Barclays Wealth

Barclays Wealth serves affluent, high net worth and intermediary clients worldwide, providing private banking, asset management, stockbroking, offshore banking, wealth structuring and financial planning services.

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

	2006 £m	2005 £m	2004[a] £m
Net interest income	366	329	301
Net fee and commission income	665	589	529
Net trading income			
Net investment income		5	
Principal transactions		5	
Other income	5	(1)	7
Total income	1,036	922	837
Impairment (charges)/releases	(2)	(2)	1
Net income	1,034	920	838
Operating expenses excluding amortisation of intangible assets	(817)	(752)	(729)
Amortisation of intangible assets	(4)	(2)	(1)
Operating expenses	(821)	(754)	(730)
Profit before tax	213	166	108
Cost:income ratio	79%	82%	87%
Cost:net income ratio	79%	82%	87%
Risk Tendency	£ 10m	£ 5m	£ 5m
Average net income per member of staff (000)	£ 138	£ 128	£ 119

	2006	2005	2004
Loans and advances to customers	£ 5.7bn	£ 4.7bn	£ 4.1bn
Customer accounts	£ 25.2bn	£ 23.1bn	£ 21.3bn
Total assets	£ 7.3bn	£ 6.1bn	£ 5.6bn

Risk weighted assets	£ 5.7bn	£ 4.1bn	£ 4.0bn
Key Facts			
Total client assets	£ 93.0bn	£ 78.3bn	£ 70.8bn

Note

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

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2006/05

Barclays Wealth profit before tax showed very strong growth of 28% (£47m) to £213m (2005: £166m). Performance was driven by broadly based income growth and favourable market conditions. This was partially offset by additional volume related costs and a significant increase in investment in people and infrastructure to support future growth.

Income increased 12% (£114m) to £1,036m (2005: £922m).

Net interest income increased 11% (£37m) to £366m (2005: £329m) reflecting growth in both customer deposits and customer lending. Average customer deposits grew 6% (£1.3bn) to £24.7bn (2005: £23.4bn). Average loans to customers grew 16% to £5.1bn (2005: £4.4bn), driven by increased lending to offshore and private banking clients. Asset and liability margins were higher relative to 2005.

Net fee and commission income increased 13% (£76m) to £665m (2005: £589m). This reflected growth in client assets and higher transactional income, including increased sales of investment products to private banking and financial planning clients, and higher stockbroking volumes.

Operating expenses increased 9% (£67m) to £821m (2005: £754m) with greater volume related and investment costs more than offsetting efficiency gains. Investment costs included increased hiring of client-facing staff and improvements to infrastructure with the upgrade of technology and operations platforms. The cost:income ratio improved three percentage points to 79% (2005: 82%).

Total client assets, comprising customer deposits and client investments, increased 19% (£14.7bn) to £93.0bn (2005: £78.3bn) reflecting good net new asset inflows and favourable market conditions. Multi-Manager assets increased 68% (£4.1bn) to £10.1bn (2005: £6.0bn); this growth included transfers of existing client assets.

2005/04

Barclays Wealth profit before tax increased 54% (£58m) to £166m (2004: £108m), driven by broad-based income growth and improved cost efficiency. Income increased 10% (£85m) to £922m (2004: £837m).

Net interest income increased 9% (£28m) to £329m (2004: £301m) reflecting strong growth in loans and deposits. Average customer deposits increased 14% to £23.4bn (2004: £20.6bn), driven by strong growth from offshore and private banking clients. Average loans increased 22% to £4.4bn (2004: £3.6bn), reflecting growth from corporate clients in the offshore business.

Net fee and commission income increased 11% (£60m) to £589m (2004: £529m). The increase was driven principally by sales of investment products to private banking and financial planning clients, stronger equity markets and higher client transaction volumes.

Operating expenses increased 3% (£24m) to £754m (2004: £730m). The cost:income ratio improved five percentage points to 82% (2004: 87%).

Total client assets, increased to £78.3bn. Multi-Manager assets increased to £6.0bn; this growth included existing customer assets.

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Analysis of results by business

Barclays Wealth closed life assurance activities

Barclays Wealth closed life assurance activities comprise the closed life assurance businesses of Barclays and Woolwich in the UK.

	2006 £m	2005 £m	2004[(a)] £m
Net interest income	**(8)**	(14)	(54)
Net fee and commission income	**50**	44	
Net trading income	**2**		
Net investment income	**154**	259	596
Principal transactions	**156**	259	596
Net premiums from insurance contracts	**210**	195	362
Other income	**11**	11	4
Total income	**419**	495	908
Net claims and benefits on insurance contracts	**(288)**	(375)	(818)
Total income net of insurance claims	**131**	120	90
Operating expenses	**(109)**	(127)	(143)
Profit/(loss) before tax	**22**	(7)	(53)
Cost:income ratio	**83%**	106%	159%

	2006	2005	2004
Total assets	**£ 7.6bn**	£ 7.3bn	£ 6.4bn

Note

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

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2006/05

Barclays Wealth closed life assurance activities profit before tax was £22m (2005: loss £7m). The improvement was mostly due to lower funding costs and reduced customer redress costs in 2006.

Excluding customer redress costs of £67m (2005; £85m), profit before tax was £89m (2005: £78m).

Income grew 9% (£11m) to £131m (2005: £120m) principally due to reduced funding costs.

Operating expenses decreased to £109m (2005: £127m). Costs relating to redress for customers decreased to £67m (2005: £85m) whilst other operating expenses remained steady at £42m (2005: £42m).

2005/04

Barclays Wealth closed life assurance activities loss before tax reduced to £7m (2004: loss of £53m), predominantly due to lower funding and redress costs in 2005.

Excluding customer redress costs of £85m (2004: £97m), profit before tax was £78m (2004: £44m).

Total income decreased to £495m (2004: £908m), largely due to the application of IFRS. The decrease was offset by a broadly similar reduction in net claims and benefits.

Operating expenses decreased 11% (£16m) to £127m (2004: £143m). Costs relating to redress for customers decreased to £85m (2004: £97m) and other operating expenses decreased 9% (£4m) to £42m (2004: £46m).

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Analysis of results by business

Head office functions and other operations

Head office functions and other operations comprise:

- Head office and central support functions
- Businesses in transition
- Consolidation adjustments.

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

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

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

	2006 £m	2005 £m	2004[a] £m
Net interest income	**80**	160	49
Net fee and commission income	**(359)**	(398)	(167)
Net trading income	**40**	85	21
Net investment income	**2**	8	(9)
Principal transactions	**42**	93	12
Net premiums from insurance contracts	**197**	146	109
Other income	**39**	24	37
Total income	**(1)**	25	40
Impairment releases/(charges)	**11**	(1)	(8)
Net income	**10**	24	32
Operating expenses excluding amortisation of intangible assets	**(259)**	(343)	(177)
Amortisation of intangible assets	**(10)**	(4)	(14)
Operating expenses	**(269)**	(347)	(191)
Profit on disposal of associates and joint ventures			2

Loss before tax	**(259)**	(323)	(157)
Risk Tendency	**£ 10m**	£ 25m	£ 30m
	2006	2005	2004
Total assets	**£ 7.1bn**	£ 9.3bn	£ 5.1bn
Risk weighted assets	**£ 1.9bn**	£ 4.0bn	£ 3.3bn

Note

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

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2006/05

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

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

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 arms-length basis. Adjustments necessary to eliminate the inter-segment transactions are included in Head office functions and other operations.

The impact of such inter-segment adjustments reduced £72m to £147m (2005: £219m). These adjustments related to internal fees for structured capital market activities of £87m (2005: £67m) and fees paid to Barclays Capital for capital raising and risk management advice of £16m (2005: £39m), both of which reduce net fees and commission income. In addition the impact of the timing of the recognition of insurance commissions included in Barclaycard and UK Retail Banking reduced to £44m (2005: £113m). This reduction was reflected in a decrease in net fee and commission income of £242m (2005: £258m) and an increase in net premium income of £198m (2005: £145m).

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

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

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

2005/04

Head office functions and other operations loss before tax increased £166m to £323m (2004: loss £157m), reflecting the elimination of inter-segment transactions and increased operating expenses.

The increase in inter-segment consolidation adjustments of £150m to £219m (2004: £69m) mainly arises from the timing of the recognition of insurance premiums included in Barclaycard and UK Banking amounting to £113m (2004: £nil). In 2004 and prior years, Barclaycard dealt with third-party underwriters but from the start of 2005 this activity was undertaken with the captive insurance operation within UK Banking.

In addition, there were two other significant consolidation adjustments in 2005: internal fees for structured capital markets activities arranged by Barclays Capital of £67m (2004: £63m); and the fees paid to Barclays Capital for capital raising and risk management advice of £39m (2004: £nil). Previously, capital raising fees were amortised over the life of the capital raising and taken as a charge to net interest income. Under IFRS they are recognised as a cost in the year of issue.

Net trading income of £85m (2004: £21m) primarily arose as a result of hedging related transactions in Treasury. The hedge ineffectiveness from 1st January 2005, together with other related Treasury adjustments, amounted to a gain of £18m (2004: £nil) and was reported in net interest income. The cost of hedging the foreign exchange risk on the Group s investment in Absa amounted to £37m (2004: £nil) and was deducted from net interest income.

Other income primarily comprised property rental income.

Impairment reflected recoveries made on loans previously written off in the transition businesses.

Operating expenses rose £156m to £347m (2004: £191m) and included non-recurring costs relating to the Head office relocation to Canary Wharf of £105m (2004: £32m) and a charge to write-down capitalised IT related assets held centrally of £60m (2004: £nil).

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Financial review

Results by nature of income and expense

Results by nature of income and expense

Net interest income

	2006 £m	2005 £m	2004[a] £m
Interest income	21,805	17,232	13,880
Interest expense	(12,662)	(9,157)	(7,047)
Net interest income	9,143	8,075	6,833

Net interest income £bn

2006/05

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

A component of the benefit of free funds included in Group net interest income is the structural hedge which functions to reduce the impact of the volatility of short-term interest rate movements. The contribution of the structural hedge decreased to £26m (2005: £145m), largely due to the impact of relatively higher short-term interest rates and lower medium-term rates.

Interest income includes £98m (2005: £76m) accrued on impaired loans.

2005/04

In 2005, Group net interest income increased 18% (£1,242m) to £8,075m (2004: £6,833m). The inclusion of Absa added net interest income of £516m in the second half of 2005. Group net interest income excluding Absa grew 11% reflecting growth in average balances across all businesses.

The contribution of the structural hedge decreased to £145m (2004: £304m), largely due to the impact of higher short-term interest rates and lower medium-term rates.

Interest income includes £76m accrued on impaired loans, reflecting the application of IAS 32.

Notes

(a) Does not include IAS 32, IAS 39 or IFRS 4 which became effective from 1st January 2005.

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

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Financial review

Results by nature of income and expense

Net fee and commission income

	2006 £m	2005 £m	2004[(a)] £m
Fee and commission income	8,005	6,430	5,509
Less: fee and commission expense	(828)	(725)	(662)
Net fee and commission income	7,177	5,705	4,847

2006/05

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

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

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

Total foreign exchange income was £850m (2005: £648m) and consisted of revenues earned from both retail and wholesale activities. Foreign exchange income earned on customer transactions by individual businesses is reported in those respective business units within fee and commission income. The foreign exchange income earned in Barclays Capital and in Treasury is reported within net trading income.

2005/04

In 2005, net fee and commission income increased 18% (£858m) to £5,705m (2004: £4,847m) reflecting good growth across all businesses. The inclusion of Absa increased net fee and commission income by £334m in the second half of 2005. Group net fee and commission income excluding Absa grew 11%. Excluding the application of IAS 32 and IAS 39, net fee and commission income increased 20%.

Fee and commission income rose 17% (£921m) to £6,430m (2004: £5,509m). The inclusion of Absa increased fee and commission income by £386m. Excluding Absa, fee and commission income grew by 10%. The growth was driven by Barclays Global Investors, reflecting strong growth in net new assets, a strong investment performance and higher market levels, and by Barclays Capital, as a result of increased business volumes and higher market share. In addition, Barclaycard fee and commission income increased as a result of higher contributions from Barclaycard Business and FirstPlus and the inclusion of Barclaycard US for the full year. Fee and commission expense increased 10% (£63m) to £725m (2004: £662m), largely reflecting the inclusion of Absa which added £52m.

Total foreign exchange income was £648m (2004: £520m) and consisted of revenues earned from both retail and wholesale activities.

Principal transactions

	2006 £m	2005 £m	2004[(a)] £m
	2,848	1,732	1,141

Rates related business			
Credit related business	**766**	589	346
Net trading income	**3,614**	2,321	1,487
Cumulative gain from disposal of available for sale assets/ investment securities	**307**	120	45
Dividend income	**15**	22	17
Net income from financial instruments designated at fair value	**447**	389	n/a
Income from assets backing insurance policies	**n/a**	n/a	717
Other investment income	**193**	327	248
Net investment income	**962**	858	1,027
Principal transactions	**4,576**	3,179	2,514

2006/05

Most of the Group s trading income is generated in Barclays Capital.

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

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

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

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

2005/04

In 2005, net trading income increased 56% (£834m) to £2,321m (2004: £1,487m) due to strong performances across Barclays Capital Rates and Credit businesses, in particular from commodities, foreign exchange, fixed income and credit derivatives. This was driven by the continued return on prior-year investments and higher volumes of client-led activity across a broad range of products and geographical regions. Group net trading income excluding £9m of Absa income, grew 55%.

Net investment income decreased 16% (£169m) to £858m (2004: £1,027m). The inclusion of Absa increased net investment income by £62m in the second half of 2005. Group net investment income excluding Absa decreased 22%.

Notes

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

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

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Following the application of IAS 39 at 1st January 2005, certain assets and liabilities were designated at fair value. Fair value movements on these items were reported within net trading income or within net investment income depending on the nature of the transaction. Fair value movements on insurance assets included within net investment income contributed £317m.

From 1st January 2005, investment and insurance contracts are separately accounted for in accordance with IAS 39 and IFRS 4. This has resulted in investment income and the corresponding movement in investment contract liabilities being presented on a net basis within other income. In 2004, all contracts were accounted for as insurance contracts and the gross income relating to these contracts was reported as income from assets backing insurance policies.

Other income

	2006 £m	2005 £m	2004[(a)] £m
Increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	7,417	9,234	n/a
Increase in liabilities to customers under investment contracts	(7,417)	(9,234)	n/a
Property rentals	55	54	46
Other income	159	93	85
Other income	214	147	131

Certain asset management products offered to institutional clients by Barclays Global Investors are recognised as investment contracts. Accordingly the invested assets and the related liabilities to investors are held at fair value and changes in those fair values are reported within other income.

Impairment charges

	2006 £m	2005 £m	2004[(a)] £m
Impairment charge on loans and advances	2,074	1,574	n/a
Specific provision charge	n/a	n/a	1,310
General provision release	n/a	n/a	(206)
	2,074	1,574	1,104
Other credit provisions	(6)	(7)	(11)
Impairment charges on loans and advances and other credit provisions	2,068	1,567	1,093
Impairment on available for sale assets	86	4	n/a
Impairment charges	2,154	1,571	1,093

2006/05

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

Impairment charges on loans and advances and other credit provisions

Impairment charges on loans and advances and other credit provisions increased 32% (£501m) to £2,068m (2005: £1,567m). Excluding Absa impairment of £126m (2005: £20m), the increase was 26% (£395m) and largely reflected the continued challenging credit environment in UK unsecured retail lending through 2006. The wholesale and corporate sectors remained stable with a low level of defaults.

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

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

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

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

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

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

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

Impairment on available for sale assets

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

Notes

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

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

(c) Prior year analysis of loans and advances to customers between retail business and wholesale and corporate business has been reclassified to reflect enhanced methodology implemented in the current year (see page 91).

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Financial review

Results by nature of income and expense

Impairment charges (continued)

2005/04

Total impairment charges and other credit provisions increased 44% (£478m) to £1,571m (2004: £1,093). This reflected some large one-off releases and recoveries in 2004, the impact of acquisitions in 2005 and changes in methodology.

In the UK, pressure on household cash flows due to a range of factors and the high level of household indebtedness led to a greater strain on personal budgets. This resulted in a deterioration in consumer credit quality which was evident from higher average delinquency balances and shorter periods between delinquency and charge-off. Smaller business customers also showed some limited deterioration in credit quality. Wholesale and corporate credit conditions remained steady.

As a result of an increase in impairment charges to the retail portfolios, and to a lesser extent in the wholesale and corporate portfolios, the impairment charges for the Group (excluding Absa charges of £20m) for the full year were £1,547m (2004: £1,093m). Impairment charges excluding Absa amounted to 0.57% (2004: 0.48%), as a percentage of period-end total non-trading loans and advances.

Retail impairment charges, excluding Absa charges of £10m, increased to £1,244m (2004: £811m), accounting for just under 80% of the Group s impairment charges. Excluding Absa, retail impairment charges amounted to 1.10% (2004: 0.72%) of the period-end total non-trading loans and advances. The increase was predominantly in the UK cards and consumer loans portfolios.

In the wholesale and corporate businesses, excluding Absa impairment charges of £10m, impairment charges increased to £303m (2004: £282m). The increase occurred largely in UK Business Banking and reflected the fact that the 2004 results included a large one-off recovery of £57m. Underlying impairment charges excluding this item were broadly flat. Wholesale and corporate impairment charges, excluding Absa, were 0.19% (2004: 0.25%) of period-end total non-trading loans and advances.

Absa s impairment charge of £20m for the five-month period was low in a benign credit environment and also reflected a reduction in the number and value of non-performing loans and a higher level of releases and recoveries.

Operating expenses

	2006 £m	2005 £m	2004[a] £m
Staff costs (Note 8)	8,169	6,318	5,227
Administrative expenses	3,980	3,443	2,766
Depreciation (Note 25)	455	362	297
Impairment loss intangible assets (Note 24)	7	9	9
property and equipment (Note 25)	14		
Operating lease rentals	345	316	215
Gain on property disposals	(432)		
Amortisation of intangible assets	136	79	22
Operating expenses	12,674	10,527	8,536

2006/05

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

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

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

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

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

The Group cost:income ratio improved to 59% (2005: 61%). This reflected improved productivity. The Group cost:net income ratio was 65% (2005: 67%).

2005/04

Operating expenses increased 23% (£1,991m) to £10,527m (2004: £8,536m). The inclusion of Absa added operating expenses of £664m to the second half of 2005. Group operating expenses excluding Absa grew 15% reflecting higher business activity.

Administrative expenses increased 24% (£677m) to £3,443m (2004: £2,766m). The inclusion of Absa added administrative expenses of £257m in the second half of 2005. Group administrative expenses excluding Absa grew 15% principally as a result of higher business activity in Barclays Capital and Barclays Global Investors and the inclusion of Barclaycard US for the full year.

Administrative expenses included non-recurring costs relating to the write-down of capitalised IT related assets held centrally of £60m (2004: £nil). Impairment losses of £9m (2004: £9m) reflected a further charge for the impairment of certain capitalised IT related assets following a review of their likely future economic benefit.

Operating lease rentals increased 47% (£101m) to £316m (2004: £215m). The inclusion of Absa added operating lease rentals of £27m in the second half of 2005. Operating lease rentals excluding Absa increased primarily as a consequence of the double occupancy costs associated with the Head office relocation to Canary Wharf.

The Group cost:income ratio remained steady at 61%. This reflected improved productivity in UK Banking, Barclays Global Investors and Barclays Wealth; and a stable performance by International Retail and Commercial Banking, offset by an increase in non-recurring operating expenses in Head office and other functions.

The Group cost:net income ratio was 67% (2004: 66%).

Notes

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

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

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Staff costs

	2006 £m	2005 £m	2004 £m
Salaries and accrued incentive payments	6,635	5,036	4,098
Social security costs	502	412	339
Pension costs	410	347	327
Other post-retirement benefits	30	27	29
Other staff costs	592	496	434
Staff costs	8,169	6,318	5,227

2006/05

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

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

2005/04

In 2005, staff costs increased 21% (£1,091m) to £6,318m (2004: £5,227m). The inclusion of Absa added staff costs of £296m during the second half of the year. Excluding the impact of Absa, staff costs increased 15%.

Salaries and accrued incentive payments rose 23% (£938m) to £5,036m (2004: £4,098m), principally due to increased headcount in Barclays Capital and performance related payments primarily in Barclays Capital and Barclays Global Investors and the inclusion of Absa. Excluding Absa salaries and accrued incentive payments of £276m, salaries and accrued incentive payments rose 16% (£662m).

Note

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

Staff numbers

	2006	2005	2004
UK Banking	41,100	39,800	41,700
UK Retail Banking	33,000	32,000	34,500
UK Business Banking	8,100	7,800	7,200
Barclaycard	8,600	7,800	6,700
International Retail and			

Commercial Banking	**48,000**	45,400	12,100
International Retail and Commercial Banking ex Absa	**14,100**	12,700	12,100
International Retail and Commercial Banking Absa	**33,900**	32,700	
Barclays Capital	**13,200**	9,900	7,900
Barclays Global Investors	**2,700**	2,300	1,900
Barclays Wealth	**7,800**	7,200	7,200
Head office and other operations	**1,200**	900	900
Total Group permanent and fixed-term contract staff worldwide	**122,600**	113,300	78,400
Agency staff worldwide	**9,100**	7,000	4,300
Total including agency staff	**131,700**	120,300	82,700

2006/05

Staff numbers are shown on a full-time equivalent basis. Total Group permanent and contract staff comprised 62,400 (31st December 2005: 59,100) in the UK and 60,200 (31st December 2005: 54,200) internationally.

UK Banking staff numbers increased 1,300 to 41,100 (31st December 2005: 39,800), primarily reflecting the inclusion in UK Retail Banking of mortgage processing staff involved in activities previously outsourced.

Barclaycard staff numbers rose 800 to 8,600 (31st December 2005: 7,800), reflecting growth of 400 in Barclaycard US and increases in operations and customer-facing staff in the UK.

International Retail and Commercial Banking increased staff numbers 2,600 to 48,000 (31st December 2005: 45,400). International Retail and Commercial Banking excluding Absa increased staff numbers by 1,400 to 14,100 (31st December 2005: 12,700), mainly due to growth in continental Europe and Africa. International Retail and Commercial Banking Absa increased staff numbers by 1,200 to 33,900 (31st December 2005: 32,700), reflecting continued growth in the business.

Barclays Capital staff numbers increased 3,300 during 2006 to 13,200 (31st December 2005: 9,900) and included 1,300 from the acquisition of HomEq. Organic growth was broadly based across all regions and reflected further investments in the front office, systems development and control functions to support continued business expansion.

Barclays Global Investors increased staff numbers 400 to 2,700 (31st December 2005: 2,300) spread across regions, product groups and support functions, reflecting continued investment to support strategic initiatives.

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Results by nature of income and expense

Staff numbers (continued)

Barclays Wealth staff numbers rose 600 to 7,800 (31st December 2005: 7,200) to support the continued expansion of the business, including increased hiring of client-facing staff.

Head office functions and other operations staff numbers grew 300 to 1,200 (31st December 2005: 900) primarily reflecting the centralisation of functional activity and the increased regulatory environment and audit demands as a result of the expansion of business areas.

Agency staff numbers rose 2,100 to 9,100 (31st December 2005: 7,000), largely due to an increase in temporary staff at Absa.

2005/04

In 2005, total Group permanent and contract staff comprised 59,100 (31st December 2004: 60,000) in the UK and 54,200 (31st December 2004: 18,400) internationally.

Since 2004 permanent and contract staff numbers increased 34,900, primarily as a result of the acquisition of Absa Group Limited, offset in part by the implementation of restructuring programmes resulting in a decrease of 2,400 staff.

UK Banking staff numbers fell 1,900 to 39,800 (31st December 2004: 41,700), reflecting the cost management programme in UK Retail Banking partially offset by an increase in UK Business Banking frontline staff and the inclusion of 200 Iveco Finance staff.

Barclaycard staff numbers rose 1,100 to 7,800 (31st December 2004: 6,700), reflecting growth of 300 in Barclaycard US, an increase of 200 in other international operations and growth in customer-facing staff in the UK.

International Retail and Commercial Banking increased staff numbers 33,300, primarily due to the inclusion of 32,700 Absa staff. International Retail and Commercial Banking excluding Absa increased staff numbers by 600 to 12,700 (31st December 2004: 12,100), mainly due to growth in continental Europe, including over 100 from the acquisition of the ING Ferri business in France.

Barclays Capital staff numbers rose 2,000 to 9,900 (31st December 2004: 7,900), reflecting the continued expansion of the business.

Barclays Global Investors increased staff numbers 400 to 2,300 to support strategic initiatives (31st December 2004: 1,900).

Head office functions and other operations staff numbers remained stable at 900 (31st December 2004: 900).

The increase in agency staff worldwide largely reflected the inclusion of 3,300 temporary staff at Absa.

Share of post-tax results of associates and joint ventures

	2006	2005	2004
	£m	£m	£m
Profit from associates	53	53	56
Loss from joint ventures	(7)	(8)	
Share of post-tax results of associates and joint ventures	46	45	56

2006/05

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

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

2005/04

In 2005, the share of post-tax results of associates and joint ventures fell 20% (£11m) to £45m (2004: £56m). A stronger underlying performance by FirstCaribbean in 2005 was more than offset by the impact of a gain in 2004 relating to the sale of shares held in Republic Bank Ltd (Barclays share £28m). Losses from joint ventures primarily related to Intelligent Processing Systems Limited, a cheque processing joint venture in the UK.

Profit on disposal of subsidiaries, associates and joint ventures

	2006 £m	2005 £m	2004 £m
Profit on disposal of subsidiaries, associates and joint ventures	323		45

2006/05

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

2005/04

The profit on disposal in 2004 relates mainly to the disposal of the Group s shareholding in Edotech, an investment in a management buy-out of the former Barclays in-house statement printing operation.

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Tax

The overall tax charge is explained in the following table:

	2006 £m	2005 £m	2004 £m
Profit before tax	**7,136**	5,280	4,580
Tax charge at average UK corporation tax rate of 30%	**2,141**	1,584	1,374
Prior year adjustments	**28**	(130)	(26)
Differing overseas tax rates	**(17)**	(35)	(110)
Non-taxable gains and income (including amounts offset by unrecognised losses)	**(393)**	(129)	(51)
Share-based payments	**27**	(12)	
Deferred tax assets not recognised	**(4)**	(7)	24
Other non-allowable expenses	**159**	168	68
Overall tax charge	**1,941**	1,439	1,279
Effective tax rate	**27%**	27%	28%

2006/05

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

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

2005/04

In 2005, the charge for the period was based upon a UK corporation tax rate of 30% for the calendar year 2005 (2004: 30%). The effective rate of tax for 2005 was 27% (2004: 28%). This was lower than the standard rate due to the beneficial effects of lower tax on certain overseas income and certain non-taxable gains. The tax charge for the year included £961m (2004: £1,028m) arising in the UK and £478m (2004: £251m) arising overseas.

IFRS compared with US GAAP

The Group also provides results on the basis of accounting principles generally accepted in the United States (US GAAP). The impact on net income and shareholders equity of applying US GAAP is set out below. The individual IFRS/US GAAP adjustments are discussed in Note 60.

Profit attributable to equity holders of the parent

(IFRS)/net income (US GAAP)

	2006 £m	2005 £m	2004 £m
Barclays PLC Group			
Profit attributable to equity holders of the parent (IFRS)/ Net income (US GAAP)			
IFRS	**4,571**	3,447	3,254

US GAAP	**4,318**	2,932	3,032
Barclays Bank PLC Group			
Profit attributable to equity holders of the parent (IFRS)/ Net income (US GAAP)			
IFRS	**4,914**	3,695	3,263
US GAAP	**4,650**	3,164	3,137

Shareholders equity excluding minority interests (IFRS)/shareholders equity (US GAAP)

	2006 £m	2005 £m
Barclays PLC Group		
Shareholders equity excluding minority interests (IFRS)/ Shareholders equity (US GAAP)		
IFRS	19,799	17,426
US GAAP	20,032	18,461
Barclays Bank PLC Group		
Shareholders equity excluding minority interests (IFRS)/ Shareholders equity (US GAAP)		
IFRS	25,421	22,665
US GAAP	25,068	23,114

The Group does not manage its business with regard to reported trends on a US GAAP basis. Consequently the level of adjustment from the application of US GAAP in current or past periods is not necessarily indicative of the magnitude or direction of such adjustment in subsequent periods.

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Financial review

Average balance sheet

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

	2006			2005			2004[a]		
	Average balance[b] £m	Interest £m	Average rate %	Average balance[b] £m	Interest £m	Average rate %	Average balance[b] £m	Interest £m	Average rate %
Assets									
Treasury bills and other eligible bills:									
in offices in the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	1,786	68	3.8
in offices outside the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	1,989	63	3.2
Loans and advances to banks[c]:									
in offices in the United Kingdom	18,401	647	3.5	14,798	454	3.1	18,144	691	3.8
in offices outside the United Kingdom	12,278	488	4.0	11,063	403	3.6	9,619	271	2.8
Loans and advances to customers[c] :									
in offices in the United Kingdom	184,392	11,247	6.1	172,398	10,229	5.9	144,175	8,810	6.1
in offices outside the United Kingdom	77,615	4,931	6.4	50,699	2,975	5.9	34,017	1,270	3.7
Lease receivables:									
in offices in the United Kingdom	5,266	300	5.7	6,521	348	5.3	4,960	220	4.4
in offices outside the United Kingdom	6,162	595	9.7	1,706	117	6.9	369	21	5.7
Debt securities:									
in offices in the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	51,212	2,129	4.2
in offices outside the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	11,533	338	2.9
Financial investments:									
in offices in the United Kingdom	41,125	1,936	4.7	43,133	1,755	4.1	n/a	n/a	n/a
in offices outside the United Kingdom	14,191	830	5.8	10,349	467	4.5	n/a	n/a	n/a
External trading assets									
in offices in the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	178,659	4,971	2.8
in offices outside the United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	116,645	2,224	1.9
Reverse repurchase agreements and cash collateral on securities borrowed									
in offices in the United Kingdom	166,713	6,136	3.7	156,292	4,617	3.0	n/a	n/a	n/a
in offices outside the United Kingdom	100,416	5,040	5.0	92,407	2,724	2.9	n/a	n/a	n/a
Trading portfolio assets:									
in offices in the United Kingdom	106,148	4,166	3.9	81,607	2,710	3.3	n/a	n/a	n/a
in offices outside the United Kingdom	61,370	2,608	4.2	57,452	2,116	3.7	n/a	n/a	n/a
Total average interest earning assets	794,077	38,924	4.9	698,425	28,915	4.1	573,108	21,076	3.7
Impairment allowances/provisions	(3,565)			(3,105)			(2,907)		
Non-interest earning assets	310,949			278,328			68,742		
Total average assets and interest income	1,101,461	38,924	3.5	973,648	28,915	3.0	638,943	21,076	3.3
Percentage of total average interest earning assets in offices outside the United Kingdom	34.3%			32.0%			30.4%		
Total average interest earning assets related to:									
Interest income		38,924	4.9		28,915	4.1		21,076	3.7
Interest expense		(30,385)	3.8		(20,965)	3.0		(14,464)	2.5
		8,539	1.1		7,950	1.0		6,612	1.2

Notes

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

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

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

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

	2006			2005			2004[a]		
	Average balance[b] £m	**Interest £m**	**Average rate %**	Average balance[b] £m	Interest £m	Average rate %	Average balance[b] £m	Interest £m	Average rate %
Liabilities and shareholders equity									
Deposits by banks:									
in offices in the United Kingdom	**62,236**	**2, 464**	**4.0**	54,801	1,665	3.0	46,669	1,225	2.6
in offices outside the United Kingdom	**23,438**	**1,137**	**4.9**	21,921	705	3.2	16,610	310	1.9
Customer accounts:									
demand deposits:									
in offices in the United Kingdom	**25,397**	**680**	**2.7**	22,593	510	2.3	20,829	310	1.5
in offices outside the United Kingdom	**10,351**	**254**	**2.5**	6,196	88	1.4	3,317	31	0.9
Customer accounts:									
savings deposits:									
in offices in the United Kingdom	**57,734**	**1,691**	**2.9**	52,569	1,570	3.0	47,583	1,325	2.8
in offices outside the United Kingdom	**3,124**	**74**	**2.4**	1,904	39	2.0	1,117	21	1.9
Customer accounts:									
other time deposits retail:									
in offices in the United Kingdom	**34,865**	**1,548**	**4.4**	33,932	1,470	4.3	34,518	1,306	3.8
in offices outside the United Kingdom	**8,946**	**482**	**5.4**	6,346	260	4.1	4,526	118	2.6
Customer accounts:									
other time deposits wholesale:									
in offices in the United Kingdom	**45,930**	**1,794**	**3.9**	41,745	1,191	2.9	58,035	1,844	3.2
in offices outside the United Kingdom	**23,442**	**1,191**	**5.1**	12,545	590	4.7	13,140	342	2.6
Debt securities in issue:									
in offices in the United Kingdom	**47,216**	**1,850**	**3.9**	46,583	1,631	3.5	47,132	1,233	2.6
in offices outside the United Kingdom	**74,125**	**3,686**	**5.0**	52,696	1,695	3.2	17,218	336	2.0
Dated and undated loan capital and other subordinated liabilities principally									
in offices in the United Kingdom	**13,686**	**777**	**5.7**	11,286	605	5.4	12,740	692	5.4
External trading liabilities:									
in offices in the United Kingdom	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	190,036	5,611	3.0
in offices outside the United Kingdom	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	115,032	1,805	1.6
Repurchase agreements and cash collateral on securities lent:									
in offices in the United Kingdom	**141,862**	**5,080**	**3.6**	130,767	3,634	2.8	n/a	n/a	n/a
in offices outside the United Kingdom	**86,693**	**4,311**	**5.0**	80,391	2,379	3.0	n/a	n/a	n/a
Trading portfolio liabilities:									
in offices in the United Kingdom	**49,892**	**2,014**	**4.0**	44,349	1,737	3.9	n/a	n/a	n/a
in offices outside the United Kingdom	**39,064**	**1,352**	**3.5**	36,538	1,196	3.3	n/a	n/a	n/a
Internal funding of trading business	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	(72,291)	(2,045)	(2.8)
Total average interest bearing liabilities	**748,001**	**30,385**	**4.1**	657,162	20,965	3.2	556,211	14,464	2.6
Interest free customer deposits:									
in offices in the United Kingdom	**27,549**			25,095			15,522		
in offices outside the United Kingdom	**2,228**			2,053			3,190		
Other non-interest bearing liabilities	**297,816**			267,531			48,614		
Minority and other interests and shareholders equity	**25,867**			21,807			15,406		
Total average liabilities, shareholders equity and interest expense	**1,101,461**	**30,385**	**2.8**	973,648	20,965	2.2	638,943	14,464	2.3
Percentage of total average interest bearing non-capital liabilities in offices	**36.1%**			33.3%			30.7%		

outside the United Kingdom

Notes

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

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

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Financial review

Average balance sheet

Changes in net interest income volume and rate analysis

The following tables allocate changes in net interest income between changes in volume and changes in interest rates for the last two years. Volume and rate variances have been calculated on the movement in the average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Where variances have arisen from changes in both volumes and interest rates, these have been allocated proportionately between the two.

	2006/2005 Change due to increase/(decrease) in:			2005/2004[a] Change due to increase/(decrease) in:			2004[a]/2003[b] Change due to increase/(decrease) in:		
	Total change £m	**Volume £m**	**Rate £m**	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest receivable									
Treasury bills and other eligible bills:									
in offices in the UK	**n/a**	**n/a**	**n/a**	(68)	(68)	n/a	(53)	(80)	27
in offices outside the UK	**n/a**	**n/a**	**n/a**	(63)	(63)	n/a	(3)	31	(34)
	n/a	**n/a**	**n/a**	(131)	(131)	n/a	(56)	(49)	(7)
Loans and advances to banks:									
in offices in the UK	**193**	**121**	**72**	(237)	(115)	(122)	117	160	(43)
in offices outside the UK	**85**	**46**	**39**	132	45	87	163	149	14
	278	**167**	**111**	(105)	(70)	(35)	280	309	(29)
Loans and advances to customers:									
in offices in the UK	**1,018**	**726**	**292**	1,419	1,681	(262)	1,006	523	483
in offices outside the UK	**1,956**	**1,695**	**261**	1,705	787	918	134	301	(167)
	2,974	**2,421**	**553**	3,124	2,468	656	1,140	824	316
Lease receivables:									
in offices in the UK	**(48)**	**(70)**	**22**	128	78	50	5	20	(15)
in offices outside the UK	**478**	**413**	**65**	96	91	5	2	7	(5)
	430	**343**	**87**	224	169	55	7	27	(20)
Debt securities:									
in offices in the UK	**n/a**	**n/a**	**n/a**	(2,129)	(2,129)	n/a	(45)	(285)	240
in offices outside the UK	**n/a**	**n/a**	**n/a**	(338)	(338)	n/a	128	241	(113)
	n/a	**n/a**	**n/a**	(2,467)	(2,467)	n/a	83	(44)	127
Financial investments:									
in offices in the UK	**181**	**(85)**	**266**	1,755	1,755	n/a	n/a	n/a	n/a
in offices outside the UK	**363**	**202**	**161**	467	467	n/a	n/a	n/a	n/a
	544	**117**	**427**	2,222	2,222	n/a	n/a	n/a	n/a

External trading assets:									
in offices in the UK and	**n/a**	**n/a**	**n/a**	(4,971)	(4,971)	n/a	1,382	2,051	(669)
outside the UK	**n/a**	**n/a**	**n/a**	(2,224)	(2,224)	n/a	812	654	158
	n/a	**n/a**	**n/a**	(7,195)	(7,195)	n/a	2,194	2,705	(511)
Reverse repurchase agreements and cash collateral on securities borrowed:									
in offices in the UK	**1,519**	**324**	**1,195**	4,617	4,617	n/a	n/a	n/a	n/a
in offices outside the UK	**2,316**	**254**	**2,062**	2,724	2,724	n/a	n/a	n/a	n/a
	3,835	**578**	**3,257**	7,341	7,341	n/a	n/a	n/a	n/a
Trading portfolio assets:									
in offices in the UK	**1,456**	**907**	**549**	2,710	2,710	n/a	n/a	n/a	n/a
in offices outside the UK	**492**	**151**	**341**	2,116	2,116	n/a	n/a	n/a	n/a
	1,948	**1,058**	**890**	4,826	4,826	n/a	n/a	n/a	n/a
Total interest receivable:									
in offices in the UK	**4,319**	**1,923**	**2,396**	3,224	3,558	(334)	2,412	2,389	23
in offices outside the UK	**5,690**	**2,761**	**2,929**	4,615	3,605	1,010	1,236	1,383	(147)
	10,009	**4,684**	**5,325**	7,839	7,163	676	3,648	3,772	(124)

Notes

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

(b) 2003 reflects UK GAAP.

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Changes in net interest income volume and rate analysis

	2006/2005 Change due to increase/(decrease) in:			2005/2004[a] Change due to increase/(decrease) in:			2004[a] /2003[b] Change due to increase/(decrease) in:		
	Total change £m	**Volume £m**	**Rate £m**	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest payable									
Deposits by banks:									
in offices in the UK	**799**	**247**	**552**	440	231	209	232	146	86
in offices outside the UK	**432**	**52**	**380**	395	121	274	126	121	5
	1,231	**299**	**932**	835	352	483	358	267	91
Customer accounts demand deposits:									
in offices in the UK	**170**	**68**	**102**	200	28	172	140	20	120
in offices outside the UK	**166**	**80**	**86**	57	36	21	(17)	(2)	(15)
	336	**148**	**188**	257	64	193	123	18	105
Customer accounts savings deposits:									
in offices in the UK	**121**	**152**	**(31)**	245	145	100	326	46	280
in offices outside the UK	**35**	**28**	**7**	18	16	2	(5)	8	(13)
	156	**180**	**(24)**	263	161	102	321	54	267
Customer accounts other time deposits retail:									
in offices in the UK	**78**	**41**	**37**	164	(23)	187	135	(24)	159
in offices outside the UK	**222**	**125**	**97**	142	59	83	15	22	(7)
	300	**166**	**134**	306	36	270	150	(2)	152
Customer accounts other time deposits wholesale:									
in offices in the UK	**603**	**129**	**474**	(653)	(479)	(174)	210	19	191
in offices outside the UK	**601**	**550**	**51**	248	(16)	264	95	132	(37)
	1,204	**679**	**525**	(405)	(495)	90	305	151	154
Debt securities in issue:									
in offices in the UK	**219**	**22**	**197**	398	507	(109)	284	(73)	357
in offices outside the UK	**1,991**	**850**	**1,141**	1,359	323	1,036	92	256	(164)
	2,210	**872**	**1,338**	1,757	830	927	376	183	193
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	**172**	**135**	**37**	(87)	(78)	(9)	8	23	(15)
External trading liabilities:									
in offices in the UK	**n/a**	**n/a**	**n/a**	(5,611)	(5,611)	n/a	1,764	1,747	17
outside the UK	**n/a**	**n/a**	**n/a**	(1,805)	(1,805)	n/a	717	884	(167)
	n/a	**n/a**	**n/a**	(7,416)	(7,416)	n/a	2,481	2,631	(150)
Repurchase agreements and cash collateral on securities lent:									
in offices in the UK	**1,446**	**329**	**1,117**	3,634	3,634	n/a	n/a	n/a	n/a
in offices outside the UK	**1,932**	**200**	**1,732**	2,379	2,379	n/a	n/a	n/a	n/a
	3,378	**529**	**2,849**	6,013	6,013	n/a	n/a	n/a	n/a
Trading portfolio liabilities:									
in offices in the UK	**277**	**222**	**55**	1,737	1,737	n/a	n/a	n/a	n/a
in offices outside the UK	**156**	**85**	**71**	1,196	1,196	n/a	n/a	n/a	n/a
	433	**307**	**126**	2,933	2,933	n/a	n/a	n/a	n/a
Internal funding of trading businesses	**n/a**	**n/a**	**n/a**	2,045	2,045	n/a	(414)	(392)	(22)
Total interest payable:									
in offices in the UK	**3,885**	**1,345**	**2,540**	2,512	2,136	376	2,685	1,512	1,173
in offices outside the UK	**5,535**	**1,970**	**3,565**	3,989	2,309	1,680	1,023	1,421	(398)
	9,420	**3,315**	**6,105**	6,501	4,445	2,056	3,708	2,933	775
Movement in net interest income									
Increase/(decrease) in interest receivable	**10,009**	**4,684**	**5,325**	7,839	7,163	676	3,648	3,772	(124)
(Increase)/decrease in interest payable	**(9,420)**	**(3,315)**	**(6,105)**	(6,501)	(4,445)	(2,056)	(3,708)	(2,933)	(775)
	589	**1,369**	**(780)**	1,338	2,718	(1,380)	(60)	839	(899)

Notes

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

(b) 2003 reflects UK GAAP.

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Financial review

Total assets and risk weighted assets

Total assets and risk weighted assets

Total assets

	2006 £m	2005 £m	2004[(a)] £m
UK Banking	**139,902**	130,304	114,934
UK Retail Banking	**74,018**	70,389	72,768
UK Business Banking	**65,884**	59,915	42,166
Barclaycard	**27,628**	25,771	23,367
IRCB	**68,848**	63,556	28,505
IRCB ex Absa	**38,451**	34,195	28,505
IRCB Absa	**30,397**	29,361	
Barclays Capital	**657,922**	601,193	353,246
Barclays Global Investors	**80,515**	80,900	968
Barclays Wealth	**7,285**	6,094	5,616
Barclays Wealth closed life assurances activities	**7,605**	7,276	6,425
Head office functions and other operations	**7,082**	9,263	5,120
Total assets	**996,787**	924,357	538,181

Risk weighted assets

	2006 £m	2005 £m	2004[(a)] £m
UK Banking	**84,903**	79,929	80,467
UK Retail Banking	**34,942**	32,803	38,230
UK Business Banking	**49,961**	47,126	42,237
Barclaycard	**25,203**	21,752	20,188
IRCB	**41,053**	41,228	19,319
IRCB ex Absa	**20,325**	20,394	19,319
IRCB Absa	**20,728**	20,834	
Barclays Capital	**137,635**	116,677	90,078
Barclays Global Investors	**1,375**	1,456	1,230
Barclays Wealth	**5,744**	4,061	4,018
Barclays Wealth closed life assurances activities			
Head office functions and other operations	**1,920**	4,045	3,301
Risk weighted assets	**297,833**	269,148	218,601

Note

(a) 2004 figures do not reflect the application of IAS32, and IAS39 and IFRS 4 which became effective from 1st January 2005.

2006/05

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

UK Retail Banking total assets increased 5% to £74.0bn (2005:

£70.4bn). This was mainly attributable to growth in mortgage balances. Risk weighted assets increased 6% to £34.9bn (2005: £32.8bn) also primarily reflecting the growth in mortgage balances.

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

Barclaycard total assets increased 7% to £27.6bn (2005: £25.8bn) driven by growth in lending balances in the international businesses and FirstPlus. Risk weighted assets increased 16% to £25.2bn (2005: £21.8bn), primarily reflecting the increase in total assets and lower securitised balances.

International Retail and Commercial Banking-excluding Absa total assets increased 13% to £38.5bn (2005: £34.2bn) mainly reflecting increases in mortgage and other lending. Risk weighted assets remained flat at £20.3bn (2005: £20.4bn), with balance sheet growth offset by the sale of FirstCaribbean International Bank.

International Retail and Commercial Banking-Absa total assets increased 3% to £30.4bn (2005: £29.4bn). Risk weighted assets remained flat at £20.7bn (2005: £20.8bn). This reflects very strong growth in Rand terms offset by a 21% decline in the value of the Rand. In Rand terms assets grew 31% to ZAR417bn (2005: ZAR319bn) and risk weighted assets grew 25% to ZAR284bn (2005: ZAR227bn) due to strong growth in mortgage lending along with growth in corporate lending.

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

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

Barclays Wealth total assets increased 20% to £7.3bn (2005: £6.1bn) reflecting strong growth in lending to high net worth, affluent and intermediary clients. Risk weighted assets increased 39% to £5.7bn (2005: £4.1bn) above the rate of balance sheet growth driven by changes in the mix of lending and growth in guarantees.

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

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2005/04

Total assets increased 72% to £924.4bn (2004: £538.2bn). Risk weighted assets increased 23% to £269.1bn (2004: £218.6bn). Loans and advances to customers that have been securitised increased £14.3bn to £18.6bn (2004: £4.3bn). The increase in risk weighted assets since 2004 reflects a rise of £37.6bn in the banking book and a rise of £12.9bn in the trading book.

UK Retail Banking total assets decreased 3% to £70.4bn (2004: £72.8bn). This was mainly attributable to lower residential mortgage balances. Risk weighted assets decreased 14% to £32.8bn (2004: £38.2bn), reflecting lower mortgage balances and a £4.5bn securitisation of mortgage assets in the second half of 2005, which more than offset strong growth in non-mortgage loans.

UK Business Banking total assets increased 42% to £59.9bn (2004: £42.2bn) due to the impact of the adoption of IAS 32 and IAS 39 and strong growth in lending balances. Risk weighted assets increased 12% to £47.1bn (2004: £42.3bn), the increase being lower than asset growth, mostly as a result of £5bn securitisation of corporate loans in the second half of 2005. The acquisition of a 51% stake in Iveco Finance, completed in June, increased total assets and risk weighted assets by £1.8bn.

Barclaycard total assets increased 10% to £25.8bn (2004: £23.4bn). Risk weighted assets rose by 8% to £21.8bn (2004: £20.2bn), which is less than the increase in assets, reflecting increased securitisation activity during the second half of 2005.

International Retail and Commercial Banking excluding Absa total assets increased 20% to £34.2bn (2004: £28.5bn) reflecting strong volume growth in European mortgages and African corporate lending. Risk weighted assets increased 6% to £20.4bn (2004: £19.3bn), which was lower than the increase in assets, reflecting strong growth in mortgage balances, which carry a 50% weighting, and the securitisation of assets in Spain during the second half of 2005.

International Retail and Commercial Banking   Absa total assets were £29.4bn and risk weighted assets £20.8bn.

Barclays Capital total assets increased 70% to £601.2bn (2004: £353.2bn). £107.5bn of this increase was the result of the adoption of IAS 32 and IAS 39. The underlying growth was mainly attributable to increases in debt securities and reverse repurchase agreements as the business continued to grow, and in derivative financial instruments as a result of business growth and market movements. Risk weighted assets increased 30% to £116.7bn (2004: £90.1bn). Excluding the impact of the transfer of a number of clients from UK Business Banking and Absa Capital from IRCB, effective 1st January 2006, the underlying growth was 20%. This reflected trading book risk weighted assets moving in line with risk rather than the balance sheet and the lower weighting of fully collateralised reverse repurchase agreements.

Barclays Global Investors total assets increased £79.9bn to £80.9bn (2004: £1.0bn) due to the impact of the adoption of IAS 32, IAS 39 and IFRS 4 and growth in asset management products reported on the balance sheet. For the amounts related to asset management products, equal and offsetting balances are reflected within liabilities to customers. Risk weighted assets rose 25% to £1.5bn (2004: £1.2bn) due to growth in the business.

Barclays Wealth total assets increased 9% to £6.1bn (2004: £5.6bn). Risk weighted assets increased 3% to £4.1bn (2004: £4.0bn).

Head office functions and other operations total assets increased 82% to £9.3bn (2004: £5.1bn). The increase included financial instruments acquired for hedging purposes. Risk weighted assets increased 21% to £4bn (2004: £3.3bn), reflecting assets held for hedging purposes.

Note

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

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Financial review

Capital management

Capital management

Barclays operates a centralised capital management model, considering both regulatory and economic capital. The capital management strategy is to continue to maximise shareholder value through optimising both the level and mix of capital resources in order to:

- Meet the individual capital ratios required by our regulators plus a prudent buffer.
- Maintain an AA credit rating.
- Generate sufficient capital to support asset growth.
- Manage the currency exposure to its overall Sterling equivalent capital requirement.

Decisions on the allocation of capital resources are based on a number of factors including return on economic and regulatory capital. This is conducted as part of the strategic planning review.

Capital resources

The Group manages both its debt and equity capital actively. The Group s authority to buy-back equity shares was renewed at the 2006 AGM to provide additional flexibility in the management of the Group s capital resources.

	2006 £m	2005 £m	2004[a] £m
Barclays PLC Group			
Shareholders equity excluding minority interests	**19,799**	17,426	15,870
Minority interests	**7,591**	7,004	894
Shareholders equity	**27,390**	24,430	16,764
Subordinated liabilities	**13,786**	12,463	12,277
Total capital resources	**41,176**	36,893	29,041

2006/05

The authorised share capital of Barclays PLC was £2,500m (2005: £2,500m) comprising 9,996 million (2005: 9,996 million) ordinary shares of 25p each and 1 million (2005: 1 million) staff shares of £1 each. Called up share capital comprises 6,535 million (2005: 6,490 million) ordinary shares of 25p each and 1 million (2005: 1 million) staff shares of £1 each.

Total capital resources increased £4,283m to £41,176m since 31st December 2005.

Shareholders equity, excluding minority interests, increased £2,373m since 31st December 2005. The increase reflected profits attributable to equity holders of the parent of £4,571m, increases in share capital and share premium of £179m and other increases in retained reserves of £412m. Offsetting these movements were dividends paid of £1,771m, decreases in the available for sale and cash flow hedging reserves of £93m and £300m respectively, a £594m decrease in the currency translation reserve and a £31m decrease due to changes in treasury and Employee Share Ownership Plan shares.

Subordinated liabilities increased £1,323m since 31st December 2005. The increase reflects capital raisings of £2,493m and interest charges of £11m; offset by exchange rate movements of £575m, redemptions of £366m, fair value adjustments of £214m and amortisation of issue expenses of £26m.

Minority interests increased £587m since 31st December 2005. The increase primarily reflected the issue by Barclays Bank PLC, during April 2006, of 30,000,000 Preference Shares of US$25 each (US$750m; £419m) with a 6.625% dividend. In addition, during April 2006, Absa issued 3,000,000 preference shares of ZAR1,000 per share (£218m).

2005/04

The authorised share capital of Barclays PLC was £2,500m (2004: £2,500m) comprising 9,996 million (2004: 9,996 million) ordinary shares of 25p each and 1 million (2004: 1 million) staff shares of £1 each. Called up share capital comprised 6,490 million (2004: 6,454 million) ordinary shares of 25p each and 1 million (2004: 1 million) staff shares of £1 each.

Total capital resources increased £7,852m to £36,893m since 2004.

Shareholders equity, excluding minority interests, increased £1,556m since 2004. The increase primarily reflected the impact of the adoption of IAS 32, IAS 39 and IFRS 4, profits attributable to equity holders of the parent of £3,447m, offset by dividends of £1,581m.

Subordinated liabilities rose £186m reflecting capital raisings of £1,283m, acquisition of Absa Group Limited s loan capital of £669m, interest charge of £210m and exchange rate movements of £207m; offset by redemptions of £464m, fair value adjustments of £43m and amortisation of issue expenses of £5m, and IFRS adjustments of £1,671m.

Minority interests increased £6,110m since 2004, primarily reflecting: the purchase of Absa Group Limited (£1,351m), the IFRS reclassification of £2,493m of certain capital instruments from loan capital to minority interests and the following issuances of Preference Shares by Barclays Bank PLC during 2005:

- 140,000 Preference Shares of nominal ¤100 each (Principal amount: 1.4bn; £978m) with a 4.75% dividend issued on 15th March 2005.
- 100,000 Preference Shares of nominal US$100 each (Principal amount: US$1bn; £551m) with a 6.278% dividend issued on 8th June 2005.
- 75,000 Preference Shares of nominal £100 each (Principal amount: £750m) with a 6% dividend issued on 22nd June 2005.

Barclays Bank PLC

The capital instruments reclassified under IFRSs and the Preference Shares issued are included within Shareholders equity excluding minority interests in the Barclays Bank PLC Group.

	2006	2005	2004[(a)]
	£m	£m	£m
Barclays Bank PLC Group			
Shareholders equity excluding minority interests	**25,421**	22,665	16,638
Minority interests	**1,685**	1,578	211
Shareholders equity	**27,106**	24,243	16,849
Undated loan capital	**5,422**	4,397	6,149
Dated loan capital	**8,364**	8,066	6,128
Total capital resources	**40,892**	36,706	29,126

2006/2005

Capital resources for Barclays Bank PLC Group were £284m lower than for Barclays PLC Group (2005: £187m lower).

2005/2004

In 2005, capital resources for Barclays Bank PLC Group were £187m lower than for Barclays PLC Group (2004: £85m higher).

Note

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

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Capital ratios

Capital adequacy and the use of regulatory capital are monitored by the Group, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and European Union Directives, as implemented by the Financial Services Authority (FSA) for supervisory purposes.

These techniques include the risk asset ratio calculation, which the FSA regards as a key supervisory tool. The FSA sets ratio requirements for individual banks in the UK at or above the internationally agreed minimum of 8%. The ratio calculation involves the application of designated risk weightings to reflect an estimate of credit, market and other risks associated with broad categories of transactions and counterparties. Regulatory guidelines define three Tiers of capital resources. Tier 1 capital, comprising mainly shareholders funds and including Reserve Capital Instruments and Tier One Notes, is the highest tier and can be used to meet trading and banking activity requirements. Tier 2 includes perpetual, medium-term and long-term subordinated debt and collectively assessed impairment allowances. Tier 2 capital can also be used to support both trading and banking activities. Tier 3 capital also comprises short-term subordinated debt with a minimum original maturity of two years. The use of tier 3 capital is restricted to trading activities only and it is not eligible to support counterparty or settlement risk. The aggregate of Tiers 2 and 3 capital included in the risk asset ratio calculation may not exceed Tier 1 capital.

	IFRS				UK GAAP	
	2006		2005		2004[a]	
	Barclays PLC Group	**Barclays Bank PLC Group**	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group
Capital ratios	**%**	**%**	%	%	%	%
Tier 1 ratio	**7.7**	**7.5**	7.0	6.9	7.6	7.6
Risk asset ratio	**11.7**	**11.5**	11.3	11.2	11.5	11.5
Risk weighted assets	**£m**	**£m**	£m	£m	£m	£m
Banking book						
on-balance sheet	**197,979**	**197,979**	180,808	180,808	148,621	148,621
off-balance sheet	**33,821**	**33,821**	31,351	31,351	26,741	26,741
Associates and joint ventures	**2,072**	**2,072**	3,914	3,914	3,020	3,020
Total banking book	**233,872**	**233,872**	216,073	216,073	178,382	178,382
Trading book						
Market risks	**30,291**	**30,291**	23,216	23,216	22,106	22,106
Counterparty and settlement risks	**33,670**	**33,670**	29,859	29,859	18,113	18,113
Total trading book	**63,961**	**63,961**	53,075	53,075	40,219	40,219
Total risk weighted assets	**297,833**	**297,833**	269,148	269,148	218,601	218,601

At 31st December 2006, the Barclays PLC Group Tier 1 capital ratio was 7.7% and the Risk asset ratio was 11.7%. From 31st December 2005, total net capital resources rose £4.2bn and risk weighted assets increased £28.7bn.

Tier 1 capital rose £4.1bn, including £2.8bn arising from profits attributable to equity shareholders net of dividends paid. Minority interests within Tier 1 capital increased £1.3bn primarily due to the issuance of £1.2bn of Reserve Capital Instruments and £0.7bn of Preference Shares partially offset by a decrease in regulatory associates of £0.4bn driven by the sale of FirstCaribbean International Bank and exchange rate movements of £0.5bn. Tier 2 capital increased £0.7bn mainly as a result of the issuance of £1.5bn of loan capital partially offset by exchange rate movements of £0.6bn and redemptions of £0.4bn.

Similar movements are reflected in the risk weighted assets and total net capital resources of Barclays Bank PLC Group, however the retention by Barclays PLC of dividends paid by Barclays Bank PLC gave rise to a reduction in the capital of Barclays Bank PLC Group relative to that of Barclays PLC Group, resulting in Tier 1 and total capital ratios of 7.5% and 11.5% respectively.

The weakening of the Rand against Sterling had a positive impact on capital ratios in 2006.

Note

(a) Regulatory capital, risk weighted assets and resultant capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the FSA. As at 1st January 2005, for Barclays PLC Group and Barclays Bank PLC Group the tier 1 ratio was 7.1% and the risk asset ratio was 11.8% reflecting the impact of IFRS including the adoption of IAS 32, IAS 39 and IFRS 4.

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Financial review

Capital resources

Total net capital resources

Capital resources (as defined for regulatory purposes)	IFRS 2006 Barclays PLC Group £m	IFRS 2006 Barclays Bank PLC Group £m	IFRS 2005 Barclays PLC Group £m	IFRS 2005 Barclays Bank PLC Group £m	UK GAAP 2004[(a)] Barclays PLC Group £m	UK GAAP 2004[(a)] Barclays Bank PLC Group £m
Tier 1						
Called up share capital	**1,634**	**2,363**	1,623	2,348	1,614	2,316
Eligible reserves	**19,608**	**21,700**	16,837	18,646	15,670	15,656
Minority interests	**7,899**	**4,528**	6,634	3,700	2,890	2,202
Tier One Notes	**909**	**909**	981	981	920	920
Less: Intangible assets	**(7,045)**	**(7,045)**	(7,180)	(7,180)	(4,432)	(4,432)
Total qualifying tier 1 capital	**23,005**	**22,455**	18,895	18,495	16,662	16,662
Tier 2						
Revaluation reserves	**25**	**25**	25	25	25	25
Available for sale equity	**221**	**221**	223	223	n/a	n/a
Collectively assessed impairment allowances	**2,556**	**2,556**	2,306	2,306	n/a	n/a
General provisions	**n/a**	**n/a**	n/a	n/a	564	564
Minority interests	**451**	**451**	515	515		
Qualifying subordinated liabilities						
Undated loan capital	**3,180**	**3,180**	3,212	3,212	3,573	3,573
Dated loan capital	**7,603**	**7,603**	7,069	7,069	5,647	5,647
Other					2	2
Total qualifying tier 2 capital	**14,036**	**14,036**	13,350	13,350	9,811	9,811
Tier 3: Short-term subordinated liabilities					286	286
Less: Supervisory deductions						
Investments not consolidated for supervisory purposes	**(982)**	**(982)**	(782)	(782)	(1,047)	(1,047)
Other deductions	**(1,348)**	**(1,348)**	(961)	(961)	(496)	(496)
Total deductions	**(2,330)**	**(2,330)**	(1,743)	(1,743)	(1,543)	(1,543)
Total net capital resources	**34,711**	**34,161**	30,502	30,102	25,216	25,216

The differences in the net capital resources of Barclays PLC Group and Barclays Bank PLC Group at 31st December 2006 and 31st December 2005 arise from the retention by Barclays PLC of dividends paid by Barclays Bank PLC.

Note

(a) Regulatory capital, risk weighted assets and resultant capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the FSA.

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Financial review

Deposits and short-term borrowings

Deposits

Deposits include deposits from banks and customers accounts.

	Average: year ended 31st December		
	2006 £m	2005 £m	2004[(a)] £m
Deposits from banks			
Customers in the United Kingdom	12,832	9,703	14,216
Customers outside the United Kingdom:			
Other European Union	30,116	29,092	51,656
United States	7,352	8,670	27,623
Africa	4,140	3,236	1,168
Rest of the World	35,013	39,060	38,969
Total deposits from banks	89,453	89,761	133,632
Customer accounts			
Customers in the United Kingdom	173,767	155,252	140,486
Customers outside the United Kingdom:			
Other European Union	22,448	20,773	22,175
United States	17,661	15,167	38,818
Africa	23,560	17,169	5,068
Rest of the World	19,992	16,911	14,761
Customer accounts	257,428	225,272	221,308

A further analysis of deposits from banks and customer accounts at 2006 is given in Note 26 and Note 27 to the accounts.

Note

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

Short-term borrowings

Short-term borrowings include deposits by banks as reported in Deposits , Commercial paper and negotiable certificates of deposit.

Deposits from Banks

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

	2006 £m	2005 £m	2004[a] £m
Year-end balance	**79,562**	75,127	111,024
Average balance	**89,453**	89,761	133,632
Maximum balance	**97,165**	103,397	155,971
Average interest rate during year	**4.2%**	2.6%	2.4%
Year-end interest rate	**4.3%**	3.6%	2.9%

Commercial paper

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

	2006 £m	2005 £m	2004[a] £m
Year-end balance	**26,546**	28,275	20,948
Average balance	**29,740**	22,309	16,680
Maximum balance	**31,859**	28,598	20,948
Average interest rate during year	**4.9%**	3.4%	1.8%
Year-end interest rate	**5.0%**	4.5%	2.2%

Negotiable certificates of deposit

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

	2006 £m	2005 £m	2004[a] £m
Year-end balance	**52,800**	43,109	37,213
Average balance	**49,327**	45,533	35,409
Maximum balance	**60,914**	53,456	44,934
Average interest rate during year	**5.1%**	3.5%	2.2%
Year-end interest rate	**5.1%**	4.5%	2.8%

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Financial review

Securities

Securities

The following table analyses the book value of securities which are carried at fair value under IFRS for 2006 and 2005.

	IFRS				UK GAAP	
	2006		2005		2004	
	Book value £m	Amortised cost £m	Book value £m	Amortised cost £m	Book value £m	Valuation £m
Investment securities available for sale						
Debt securities:						
United Kingdom government	758	761	31	31	18	18
Other government	12,587	12,735	14,860	14,827	11,858	12,051
Other public bodies	280	277	216	216	21	21
Mortgage and asset backed securities	1,706	1,706	3,062	3,062	8,260	8,234
Corporate issuers	27,089	27,100	25,590	25,597	17,029	17,062
Other issuers	5,492	5,450	6,265	6,257	5,531	5,549
Equity shares	1,371	1,047	1,250	1,007	526	746
Investment securities available for sale	49,283	49,076	51,274	50,997	43,243	43,681
Other securities held for trading						
Debt securities:						
United Kingdom government	4,986	n/a	4,786	n/a	2,567	2,567
Other government	46,845	n/a	46,426	n/a	37,438	37,438
Other mortgage and asset backed securities	17,032	n/a	10,290	n/a	8,177	8,177
Bank and building society certificates of deposit	14,159	n/a	15,837	n/a	7,063	7,063
Other issuers	57,554	n/a	51,028	n/a	32,349	32,349
Equity shares	31,548	n/a	20,299	n/a	10,873	10,873
Other securities held for trading	172,124	n/a	148,666	n/a	98,467	98,467

Investment debt securities include government securities held as part of the Group s treasury management portfolio for asset and liability, liquidity and regulatory purposes and are for use on a continuing basis in the activities of the Group. In addition, the Group holds as investments listed and unlisted corporate securities. In 2004, under UK GAAP, investment securities were valued at cost, adjusted for the amortisation of premiums or discounts to redemption, less any provision for diminution in value.

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

A further analysis of the book value and valuation of securities is given in Notes 12 and 18 to the accounts.

In addition to UK government securities shown above, at 31st December 2006, 2005 and 2004, the Group held the following government securities which exceeded 10% of shareholders equity.

	2006 Book value[a] £m	2005 Book value[a] £m	2004 Book value[a] £m
United States government securities	18,343	16,093	14,334
Japanese government securities	15,505	14,560	8,494

German government securities	4,741	6,376	6,215
French government securities	4,336	4,822	3,035
Italian government securities	3,419	4,300	6,900
Spanish government securities	2,859	2,456	2,597
Netherlands government securities	395	2,791	484

Maturities and yield of available for sale debt securities

	Maturing within one year:		Maturing after one but within five years:		Maturing after five but within ten years:		Maturing after ten years:		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	yield %
Government	2,664	5.2	4,792	3.9	4,855	4.7	1,034	1.2	13,345	4.2
Other public bodies	256	12.0	14	2.9			10	4.6	280	11.2
Other issuers	15,264	4.9	13,115	4.2	1,889	5.1	4,019	3.7	34,287	4.5
Total book value	18,184	5.1	17,921	4.1	6,744	4.8	5,063	3.2	47,912	4.5

The yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2006 by the fair value of securities held at that date.

Note

(a) The book value represents the fair value.

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Financial review

Off-balance sheet arrangements

Off-balance sheet arrangements

In the ordinary course of business and primarily to facilitate client transactions, the Group enters into off-balance sheet arrangements. These arrangements include the provision of guarantees on behalf of the Group s customers, retained interests in assets which have been transferred to an unconsolidated entity and obligations arising out of variable interests in an unconsolidated entity.

Guarantees

In the normal course of business, the Group issues guarantees on behalf of its customers. In the majority of cases, Barclays will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, Barclays issues guarantees on its own behalf. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty s Revenue and Customs and retention guarantees. Further details on these guarantees are provided in Note 60 (o) to the accounts.

Derivatives on own shares

During the period Barclays entered into a cash-settled total return swap referencing its own ordinary shares. This instrument provides a hedge against the employers national insurance liability arising on employee share schemes, where the eventual liability is determined by reference to the Barclays share price. As at 31st December, the notional of this derivative was 12.4 million shares and the fair value was £9.5m. Under IFRSs, cash flow hedge accounting has been applied when accounting for the gains and losses arising on this derivative.

Special purpose and variable interest entities

The off-balance sheet arrangements entered into by the Group typically involve the use of special purpose entities (SPEs) as defined under SIC 12 and variable interest entities (VIEs) under FIN 46-R. These are entities that are set up for a specific purpose and generally would not enter into an operating activity nor have any employees. The most common form of SPE involves the acquisition of financial assets that are funded by the issuance of securities to external investors, which have cash flows different from those of the underlying instruments. The repayment of these securities is determined by the performance of the assets acquired by the SPE. These entities form an integral part of many financial markets, and are important to the development of the securitisation markets and functioning of the US commercial paper market. The accounting treatment under IFRSs and US GAAP is summarised in Note 60 on page 247, with further information on the US GAAP treatment provided in Note 60 (m) on pages 264 and 265.

Credit structuring business

The Group structures investments with specific risk profiles which are attractive to investors. This business involves the sale by the Group of credit exposures based on an underlying portfolio of assets into SPEs, often using credit derivative contracts. The assets are funded by issuing securities with varying terms. The Group may also provide other financial services, which include the provision of liquidity or contingent liquidity facilities, act as derivatives counterparty as well as the purchasing and warehousing of securities until they are sold to the SPE. The commitments to provide liquidity to these SPEs is a maximum of £6.4bn (2005: £1.1bn).

Asset securitisations

The Group assists companies with the formation of asset securitisations. These entities have minimal equity and rely on funding in the form of notes to purchase the assets for securitisation. The Group provides financing in the form of senior notes and/or junior notes and may also provide derivatives to the SPE.

The Group has also used SPEs to securitise part of its originated and purchased retail and commercial lending portfolios and credit card receivables. Under US GAAP, where the Group has sold the assets to a Qualifying SPE (QSPE), the QSPE is not consolidated by the Group. This resulted in the derecognition of assets of £5,359m as at 31st December 2006 (2005: £6,953m) under US GAAP. Following the sale of these assets to the securitisation vehicles, the Group may retain servicing rights and an interest in the residual income of the SPEs. Under IFRS, the SPEs are consolidated where the Group is exposed to the majority of the risks and rewards of the transaction. Further details are included in Note 60 (n) to the accounts.

Client intermediation

The Group is involved in structuring transactions as a financial intermediary to meet investor and client needs. These transactions involve entities structured by either the Group or the client and they are used to modify cash flows of third-party assets to create investments with specific risk or return profiles or to assist clients in the efficient management of other risks. The Group also invests in lessor entities specifically to acquire assets for leasing. Client intermediation also includes arrangements to fund the purchase or construction of specific assets (most common in the property industry). Certain entities that are consolidated in accordance with IAS 27 and SIC 12 under IFRS are deconsolidated under US GAAP where the Group is not the primary beneficiary. The impact on the Group s total assets under US GAAP is an increase of £5,920m (2005: reduction of £327m).

Fund management

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

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Risk factors

Risk factors

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

Business conditions and general economy

The profitability of Barclays businesses could be adversely affected by a worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the US or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the activity level of customers, for example:

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

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

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

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

Credit risk

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

Furthermore, credit risk is manifested as country risk where difficulties may arise; in the country in which the exposure is domiciled thus impeding or reducing the value of the asset; or where the counterparty may be the country itself.

Settlement risk is another form of credit risk and is the possibility that the Group may pay a counterparty for example, a bank in a foreign exchange transaction but fail to receive the corresponding settlement in return.

Market risk

The most significant market risks the Group faces are interest rate, credit spread, foreign exchange, commodity price and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending income and borrowing costs. Changes in currency rates, particularly in the Sterling-US Dollar, Sterling-Euro and Sterling-Rand exchange rates, affect the value of assets and liabilities denominated in foreign currencies and affect earnings reported by the Group s non-UK subsidiaries and may affect revenues from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Group s investment and trading portfolios and in the amount of revenues generated from assets under management. The Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group s financial performance, business operations and the value of assets held in the Group s pension and long-term assurance funds.

Capital risk

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

- Meet minimum regulatory capital requirements in the UK and in other markets such as the US and South Africa where regulated activities are undertaken. The Group s authority to operate as a bank is dependent upon the maintenance of adequate capital resources.

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

- Support its growth and strategic options.

The Group s capital management activities seek to maximise shareholder value by optimising the level and mix of its capital resources. Capital risk is mitigated by:

- ensuring access to a broad range of investor markets;

- management of the Group s demand for capital; and

- management of the exposure to foreign currency exchange rate movements.

Liquidity risk

This is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend.

The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Operational risks

The Group s businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses can result from fraud, employee errors, failure to properly document transactions or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems (see page 86 for a detailed list). Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by the Group.

Insurance risk

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

Legal risk

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

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

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

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

- the Group may be liable for damages to third parties harmed by the conduct of its business.

The Group faces risk where legal proceedings are brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

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

Tax risk

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

Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

Effect of governmental policy and regulation

The Group s businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the UK, the European Union (EU), the US, South Africa and elsewhere.

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 the EU as a whole, these regulatory actions included an inquiry into retail banking in all of the then 25 Member States by the European Commission s Directorate General for Competition. The inquiry looked at retail banking in Europe generally and the Group has fully co-operated with the inquiry. On 31st January 2007 the European Commission announced that the inquiry had identified barriers to competition in certain areas of retail banking, payment cards and payment systems in the EU. The Commission indicated it will use its powers to address these barriers, and will encourage national competition authorities to enforce European and national competition laws where appropriate. Any action taken by the Commission and national competition authorities could have an impact on the payment cards and payment systems businesses of the Group and on its retail banking activities in the EU countries in which it operates.

In the UK, 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, following a period of consultation, the OFT referred the PPI market to the UK Competition Commission for an in-depth inquiry on 7th February 2007. This inquiry could last for up to two years. Also in October 2006, the Financial Services Authority (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. The Group has cooperated fully with these investigations and will continue to do so.

In April 2006, the OFT commenced a review of the undertakings given following the conclusion of the Competition Commission Inquiry in 2002 into the supply of banking services to Small and Medium Enterprises (SMEs). The Group is cooperating fully with that review.

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 s investigation in the Visa interchange case is at an earlier stage and a second MasterCard interchange case is 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. On 9th February 2007 the OFT announced that it was expanding its investigation into interchange rates to include debit cards.

The OFT announced the findings of its investigation into the level of late and over-limit fees on credit cards on 5th April 2006, requiring a response from credit card companies by 31st May 2006. Barclaycard responded by confirming that it would reduce its late and over-limit fees on credit cards from 1st August 2006.

On 7th 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 OFT expects this work to take up to six months, at which stage the OFT will consider whether a further detailed investigation into unauthorised overdraft fees is needed.

On 26th January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. Barclays will charge the fee applicable at the time the customer took out the mortgage, which is one of the options recommended by the FSA.

Other areas where changes could have an impact include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework (page 55);
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for the Group s products and services.

Impact of strategic decisions taken by the Group

The Group devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, supported by substantial expenditure to generate growth in customer business. If these strategic plans do not deliver as anticipated, the Group s earnings could grow more slowly or decline.

Competition

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

Impact of external factors on the Group and peer group

The Group s primary performance goal is to achieve top quartile Total Shareholder Return performance for 2004 to 2007 (inclusive) against a group of peer financial institutions. This goal assumes that external factors will impact all peer group entities similarly. The Group s ability

Risk factors

to achieve the goal will be significantly impacted if the Group is disproportionately impacted by negative external factors. Even if the Group performs well, if others perform better or the market believes others have performed better, we may not achieve our goal.

Additionally some peers are listed on exchanges other than the London Stock Exchange and so may react to differing external factors. Barclays devotes considerable resources and expertise to managing the risks to which it is exposed. Our risk management is described in the following pages (pages 63 to 103). Please also refer to the cautionary statement concerning forward-looking statements on the inside of the front cover in conjunction with this section.

Regulatory compliance risk

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

Supervision and regulation

The Group s operations, including its overseas offices, subsidiaries and associates, are subject to rules and regulations, including reserve and reporting requirements and conduct of business requirements, imposed by the relevant central banks and regulatory authorities.

In the UK, the Financial Services Authority (FSA) is the independent body responsible for the regulation of deposit taking, life insurance, home mortgages, general insurance and investment business. The FSA was established by the Government and it exercises statutory powers under the Financial Services and Markets Act 2000.

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

The FSA adopts a risk-based approach to supervision. The starting point for supervision of all financial institutions is a systematic analysis of the risk profile for each authorised firm. The FSA has adopted a homogeneous risk, processes and resourcing model in its approach to its supervisory responsibilities (known as the ARROW model) and the results of the risk assessment are used by the FSA to develop a risk mitigation programme for a firm. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy (see capital ratios on page 55), limits on large exposures to individual entities and groups of closely connected entities, and liquidity. Certain of these requirements derive from EU directives as described below.

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

Outside the UK, the Group has operations (and main regulators) located in continental Europe, in particular France, Germany, Spain, Switzerland, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Financial Services Agency of Japan, the Australian Securities and Investments Commission and the Monetary Authority of Singapore); Africa (various regulatory authorities including the South African Reserve Bank and the Financial Services Board) and the United States of America (the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Securities and Exchange Commission).

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

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

In the United States, Barclays PLC, Barclays Bank PLC, and certain US subsidiaries and branches of the Bank are subject to a comprehensive regulatory structure involving numerous statutes, rules and regulations. Barclays branch operations in New York and Florida are licensed by, and subject to regulation and examination by, their respective licensing authorities, the New York State Banking Department and the Florida Office of Financial Regulation. Barclays Global Investors, NA is a federally-chartered trust company subject to regulation and examination by OCC. Barclays Bank Delaware is subject to regulation and examination by the Federal Deposit Insurance Corporation and the Delaware State Banking Commissioner. In addition, the FRB is the primary US federal regulator for the New York and Florida branch operations and also exercises regulatory authority over Barclays other US operations. The regulation of Barclays US branches and subsidiaries imposes restrictions on the activities of those branches and subsidiaries.

In addition to the direct regulation of Barclays US banking offices, Barclays US operations subject Barclays to regulation by the FRB under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956 (BHC Act). Barclays PLC, Barclays Bank PLC and Barclays Group US Inc. are bank holding companies registered with the FRB as well as financial holding companies under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to banking organizations that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain the financial holding company status of each of Barclays PLC, Barclays Bank PLC and Barclays Group US Inc., Barclays Bank PLC is required to meet or exceed certain capital ratios and to be deemed to be well managed . Barclays Bank Delaware must also meet certain capital requirements, be deemed to be well managed and must have at least a satisfactory rating under the Community Reinvestment Act of 1977.

A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. Regulations applicable to US operations of Barclays Bank PLC and its subsidiaries impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to ensure compliance with US economic sanctions against designated foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution.

Another recent focus of US governmental policy relating to the financial services sector generally has been on disclosure and sales practices relating to the sector s subprime mortgage and other lending.

Barclays investment banking operations are subject to regulations that cover all aspects of the securities business, including:

- Trade practices among broker-dealers
- Capital structure
- Record-keeping
- The financing of customers purchases
- Procedures for compliance with US securities law

Barclays Capital Inc. and the other subsidiaries that conduct these operations are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the NASD. These regulators have available a variety of sanctions, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the entity or its directors, officers or employees. The SEC staff has informed Barclays that it is considering recommending a civil enforcement action in federal court against Barclays for violations of the US federal securities laws in connection with trading activity between 2002 and 2003 by a proprietary trading desk at Barclays while desk personnel were serving on various bankruptcy committees. Barclays independently addressed the practices, policies and procedures at issue in 2003, prior to the commencement of the SEC investigation, and none of the employees engaged in such trading activity is currently employed by Barclays. Barclays has cooperated with the SEC staff during its investigation and is in ongoing negotiations with the staff to resolve the matter. Barclays does not expect that the amount of any settlement with the SEC would have a significant adverse effect on Barclays financial position or operating results.

Barclays subsidiaries in the US are also subject to regulation by applicable federal and state regulators of their activities in the asset management, investment advisory, mutual fund and mortgage lending businesses.

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Risk management

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Risk management

Introduction

Barclays approach to risk management

Risk management is a fundamental part of Barclays business activity and an essential component of its planning process. This is achieved by keeping risk management at the centre of the executive agenda and by building a culture in which risk management is embedded in the everyday management of the business. Barclays ensures that it has the functional capability to manage the risk in new and existing businesses, and that business plans are consistent with risk appetite.

Risk appetite is the level of risk that Barclays is willing to accept in fulfilling business objectives. To determine this acceptable level of risk, potential earnings volatility against financial objectives are considered first. As part of the planning process, management estimates the potential earnings volatility from different businesses under various scenarios. Barclays estimates the capacity to absorb unexpected losses in terms of the tolerable level of variance from financial targets, by considering the ability to support business growth, desired dividend payout levels and capital ratio targets. If the projections entail too high a level of risk, management will challenge each area to find new ways to rebalance the business mix to incur less risk on a diversified basis. Barclays believes that this enables it to improve risk and return characteristics across the business and help meet growth targets within an overall risk appetite.

Across Barclays, every business manager is accountable for managing risk in his or her business area; they must understand and control the key risks inherent in the business undertaken. Each business area also employs risk specialists to provide an independent control function and to support the development of a strong risk management environment. This functional approach to risk management is built on formal control processes that rely on individual responsibility and independent oversight, as well as challenge through peer reviews. Barclays continues to use and develop advanced analysis, with comprehensive reporting of risk positions against their key risk factors and against risk appetite. To support expanded risk taking, Barclays has continued to strengthen the independent and specialised risk teams in each of its businesses, supported by matching teams at Group level, acting in both a consultancy and oversight capacity. It has made the recruitment, development and retention of risk professionals a priority because it is believed that it is a prerequisite to business growth plans. Barclays also continues to make significant investment in the infrastructure to identify, measure and report risk positions.

Barclays remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with risk appetite, and through building more effective risk management capabilities. Responsibility for risk management resides at all levels within the Group, from the Executive down through the organisation to each business manager and risk specialist. We are seeking an appropriate balance in our business, and continuing to build the risk management capabilities that will help us to deliver our growth plans in a controlled environment.

2006 developments

In broad terms, Risk Appetite increased by about 20% during 2006, in conjunction with increased and more diversified earnings and a continued strong capital base. Barclays will continue to deploy this expanded appetite across many businesses and risk types. During 2006 it expanded the range and level of credit risk it runs across geographies and products, and this will continue as part of its developing business plans. Traded market risk levels grew at a slower level than trading revenues; these and the other risk types are addressed below.

The risk environment in 2006 had very different characteristics across the risk types, with continued benign conditions in wholesale and

corporate credit risk, a continued difficult environment in the UK unsecured retail credit sector, stable operational risk, and periods of moderate volatility in some areas of market risk. The UK unsecured retail credit market experienced a continuation of recent trends, arising from a high level of household debt and continued strain on the discretionary cash flow in some parts of the retail customer population. Higher interest rates, energy costs and some higher taxation have put strain on UK consumer portfolios, which has been exacerbated by increasing levels of personal bankruptcy and Individual Voluntary Arrangements. This deterioration in consumer credit quality, coupled with the changing social attitudes to bankruptcy and debt default in general, contributed to a higher impairment charge in our UK credit card and unsecured loan portfolios.

Notwithstanding the difficult conditions in the UK credit environment, Barclays experience shows that the actions taken in Barclaycard, including revised underwriting rules, tighter limit assignment and line management, and improved collections have had a positive effect. The quality of new accounts, as measured by average credit scores, has consistently improved since 2005, while in our UK cards and unsecured loan portfolios the flows into early stage and later cycle delinquency as well as arrears balances decreased in the second half of 2006.

Barclays has been alert to contagion from the retail sector influencing the Local Business portfolio and although increasing credit delinquency has been anticipated and experienced, management actions have been taken to mitigate the impact. Conditions in this area have been more directly affected by the conditions prevailing in the retail market, especially those sectors closer to the consumer. All of these businesses are dependent on the UK economy and it is expected that the outlook for economic growth in 2007 will be similar to that experienced in 2006.

Some important changes to the retail risk profile in 2006 were volume related. In the UK, the size of the card portfolio reduced as a result of the management actions in Barclaycard outlined above, while international activities in the USA, Europe and South Africa expanded.

Looking outside the UK, Barclaycard US has been growing its card portfolio and Absa also operated in a growing market in South Africa. The business model explicitly includes the benefits of risk diversification of new products with new clients and in new geographies. Risk diversification was therefore a significant factor in the decision to acquire a majority stake in Absa in 2005, which provided strong earnings in 2006 that are less correlated to the core UK business. The same is true for Barclaycard US and the other areas of international growth within existing businesses, such as Barclays Capital and BGI.

The credit environment in the larger corporate and wholesale sector continued to benefit from relatively stable conditions, although there was some evidence of slightly increasing corporate defaults. Overall global credit conditions, based on economic growth, low inflation and rising stock markets, have led to a very competitive market and credit spreads are still at very low levels in most markets. Borrower quality has remained good across the capital market corporate sector. There has been continued market demand for credit assets resulting from strong financial industry liquidity, which has been important in maintaining the strong corporate credit environment.

Investors in the leveraged finance market displayed a continued strong demand for assets in 2006. With so much liquidity in the market, transaction leverage multiples have risen, maturities have lengthened and amounts financed have increased. Barclays remained focused on the structure of such deals and it declines transactions that are beyond its appetite. It runs a distribution-led leveraged finance business in Barclays Capital and has a strong track record of selling down underwriting positions rather than holding larger positions in the credit portfolio, and it is alert to any slowdown in the distribution performance of the syndication markets. In the UK market for smaller transactions, it has also maintained caps on risk positions in this business during 2006.

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Barclays is also focused on the UK commercial property lending market, where property yields in 2006 declined as financing costs have risen. As a result, there has been further constriction of the available cash flow margin to support higher valuations and increased debt levels. Barclays therefore has increased hold levels and while the business has expanded, none of the caps governing exposure in this sector has been increased.

Overall, the contrast in credit conditions in the retail and wholesale markets is reflected in the different trends of principal metrics. While Risk Tendency and Non-Performing Loan balances both rose in the retail sector, they fell or held steady in the wholesale portfolios.

The market risk environment in 2006 offered clients the opportunity to benefit from market movements in a controlled manner through their own risk management activities. Although Barclays Capital ran higher levels of market risk as measured by daily value at risk (DVaR), this was in line with Risk Appetite and the growth in trading revenues more than kept pace with rising DVaR. The two principal areas where the risk profile at Barclays Capital altered were commodities and interest rates. The commodities business saw an increase in client demand for structured products and risk management solutions, which led to a strong trading performance in Barclays Capital and an increase in risk positions arising from client business needs. In contrast, interest rate markets were quieter, leading to a smaller requirement from clients to hold such market risk positions on the books.

Market risks outside Barclays Capital, which mainly include interest rate exposures within the various banking books and some Treasury risks, remained very modest, consistent with the Group s policy of hedging these positions to a material degree.

Barclays defined benefit pension risks are also closely monitored. The actuarial funding surplus of the UK pension scheme improved on the back of strong asset returns and contributions from Barclays. These factors, together with several market developments that led to adjustments in accounting assumptions, also drove a reduction in the IAS 19 deficit.

The challenges in operational risk management arise from the strong growth in the transaction volumes contained within the business plans and from the increasing internationalisation of operations. However, Barclays has been successful in reducing the level of operational risk through improving key end-to-end processes and increasing their resilience and capacity to sustain the increasing demands of higher business volumes.

Internet banking was an important focus of financial crime risk management in 2006, with increasing numbers of fraud attacks in the first quarter. These occurred through both attempted identity thefts (phishing) and the placing of electronic devices in systems to extract personal data (trojans). Such attempts are becoming more sophisticated in nature but Barclays was able to stem and then reverse the growth in net losses through the aggressive deployment of additional controls, supported by extra resources within fraud operations. The improved capacity for early detection of compromised accounts meant that a recrudescence of fraud attacks later in the year did not lead to any increase in losses.

In 2006 Barclays continued to strengthen its anti-money laundering activities, to enhance the Group s financial sanctions screening capability and to implement more robust controls. These measures enable it to comply with the ever more complex demands of the international regulatory environment and to resist increasingly sophisticated criminal operations. As such, Barclays believes that it has further improved the management of financial crime risk globally, an integral part of protecting its reputation and brand.

Basel II

The implementation of the new Basel II regulatory requirements is the principal area of regulatory change ahead for the risk management area. The main purpose of this is to promote a more sophisticated capital assessment and risk management framework for the international banking industry.

In October 2006 Barclays formally applied to the FSA to adopt the advanced approaches for both Credit and Operational risk from 1st January 2008, and the FSA is expected to provide its decision by 30th June 2007. A positive consequence of the advanced approaches is closer alignment between internal economic capital and regulatory capital measures and processes, thus helping Barclays to manage its capital ratios more effectively over time.

The successful implementation of the Basel II requirements has required some data, model, and system changes in many of Barclays businesses. The investment it has made in this area is part of the business strategy to ensure that Barclays continues to be at the leading edge of risk management and, as such, it continues to believe that achieving advanced status is appropriate and realistic.

The Group commenced the parallel run process required to adopt Basel II at the end of 2006. During 2007, the results of the parallel run of the Group s Basel II models will be an important consideration in the management of its capital resources. A further requirement of Basel II is enhanced market disclosure and to support this, Barclays is moving towards an improved reporting capability.

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Risk management

Risk management and control overview

Governance Structure at Group Level

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

These Committees receive regular and comprehensive reports. The Board Risk Committee receives a quarterly report covering all of our principal risks. The Board Audit Committee receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both Committees also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both Committees are reported to the full Board, which also receives a concise quarterly risk report. Internal Audit supports both Committees by

attendance and/or the provision of quarterly reports resulting from its work on governance, risk and control issues of significance. The Board

Audit Committee reviews and approves Internal Audit s plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

Under Basel II, Barclays aims to achieve advanced status under credit and operational risks. Barclays considers that the investment required to attain this status is warranted by the internal risk management improvements that will follow, the reputational benefits and the potential for greater capital efficiency.

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Risk management   overview

Risk responsibilities

The Board approves Risk Appetite and the Board Risk Committee monitors the Group s risk profile against this appetite.

- Business Heads are responsible for the identification and management of risk in their businesses.
- The Risk Director, under delegated authority from the Group Chief Executive and Group Finance Director, has responsibility for ensuring effective risk management and control.
- Each business has an embedded risk management team reporting to a Business Risk Director or Chief Credit Officer who reports to the Risk Director. The risk management teams assist Group Risk in the formulation of Group Risk policy and the implementation of it across the businesses.
- Risk-Type Heads and their teams are responsible for establishing a risk control framework and risk oversight.
- Business risk teams, each under the management of a Business Risk Director, are responsible for assisting Business Heads in the identification and management of their business risk profiles and for implementing appropriate controls.
- Internal Audit is responsible for the independent review of risk management and the control environment.

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Risk management

Risk management   overview

The internal control framework at Barclays is aligned with the internationally accepted standard Internal Control   Integrated Framework published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The Group s principal risk categories (set out below) are the subject of Board approved risk control requirements.

Credit

Market

Capital

Liquidity

Operational risks and business risks, comprising:

- Financial Reporting, Taxation and Budgeting
- Brand Management
- Change
- Corporate Responsibility
- People
- Regulatory Compliance
- Financial Crime
- Strategic
- Technology
- Legal
- Operations

Detailed discussion of our risk management of credit, market, capital, liquidity, operational and business risks follows, starting with credit risk on page 72. In addition there is also discussion on insurance risk, disclosure about certain trading activities and derivatives.

Risk management

The pages that follow describe how Barclays conducts risk management, including the key risk concepts it uses and how it manages specific types of risk.

To ensure the Group maintains effective governance and control over its risk management processes, Group Risk sets policies and standards for each risk type. Group Risk breaks down the risk management process into five discrete steps: direct, assess, control, report and manage/challenge. It is Group Risk s responsibility to ensure that each of the five steps is embedded across the Group for each risk type.

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

Risk Appetite

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

The objectives of the Risk Appetite framework are to:

- help protect the Group s performance;
- improve management confidence and debate regarding our risk profile;
- help executive management improve control and co-ordination of
- risk-taking across businesses; and,
- enable unused risk capacity to be identified and thus profitable opportunities to be highlighted.

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

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

- expected performance (including the average credit losses based on measurements over many years);
- a moderate stress level of loss that is likely to occur only infrequently and is meant to correspond to a macroeconomic cycle;
- a severe stress which is much less likely;
- an extreme but highly improbable level of stressed loss which is used to determine the Group s economic capital.

These potentially larger but increasingly less likely levels of loss are illustrated in the following chart.

Risk Appetite concepts (diagram not to scale)

Mandate and scale: This second perspective is a risk management approach that seeks to formally review and control our business activities to ensure that they are within our mandate (i.e. aligned to the expectations of external stakeholders) and are of an appropriate scale (relative to the risk and reward of the underlying activities). This is achieved by using limits and triggers to avoid concentrations and operational risks which could lead to unexpected losses of a scale that would result in a disproportionate fall in Barclays market capitalisation.

Taken as a whole, the Risk Appetite framework provides a basis for the allocation of risk capacity to each business. Since the level of loss at any given probability is dependent on the portfolio of exposures in each business, the statistical measurement for each key risk category gives the Group clearer sight and better control of risk-taking throughout the enterprise. The Risk Appetite framework is designed to be:

- simple and practical to apply by measurement and monitoring of exposures;
- geared to risk/return where capacity is directly related to opportunity;
- based on a top-down capacity for earnings volatility;
- based on bottom-up identification of risk factors in each business;
- relevant, recognising the impact and likelihood of losses;
- aggregated across businesses where appropriate.

Stress testing

The Risk Appetite numbers are validated by estimating the Group sensitivity to macroeconomic events using stress testing and scenario analysis. Changes in certain macroeconomic variables represent environmental stresses which may reveal systemic credit and market risk sensitivities in our retail and wholesale portfolios. The stresses considered include, for example, the following sensitivities:

- Gross Domestic Product weaker;
- employment weaker;
- interest rates higher or lower;
- interest rate curve shifts;
- equity prices lower;
- property prices weaker;
- credit spreads wider;
- country exposure stressed;
- industry exposure stressed;
- currency fluctuations.

More complex scenarios, such as recessions, can be represented by combinations of variables. These scenarios allow senior management to gain a better understanding of how portfolios are likely to react to changing economic and geopolitical conditions and how the Group can best react to them. The stress test simulates the balance sheet and profit and loss effects of stresses across the Group, investigating the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the senior management process and the Risk Appetite framework. This process of analysis and senior management oversight also provides the basis for fulfilling the stress testing requirements of Basel II advanced approach.

Barclays estimates the capital needed to survive an extreme but highly improbable level of stressed loss. The calculation is based on the historical volatility of losses. Capitalisation occurs to a level sufficient to provide a high level of confidence in the Group, consistent with the Group s AA rating.

The Group macroeconomic stress test is only one of a number of stress test analyses that are performed as part of the wider risk management process. Specific stress test analysis is used across all risk types to gain a better understanding of the risk profile and the potential effects of changes in external factors. These stress tests are performed at a number of different levels, from analysis covering specific stresses on individual sub-portfolios (e.g. high value mortgages in the South East of England), to portfolio level stresses (e.g. the overall commodities portfolio) to Group-wide stresses for particular asset types (e.g. wholesale credit risk stress tests).

Capital management

Barclays considers both regulatory (see page 85) and economic capital (see page 70) as part of its capital management. In respect of economic capital, Group Risk owns the methodology and policy whilst the businesses are responsible for the calculation.

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Risk management overview

Economic capital

Barclays assesses capital requirements by measuring the Group risk profile using both internally and externally developed models. The Group assigns economic capital primarily within seven risk categories: Credit Risk, Market Risk, Business Risk, Operational Risk, Insurance Risk, Fixed Assets and Private Equity.

The Group regularly enhances its economic capital methodology and benchmarks outputs to external reference points. The framework has been enhanced to reflect default probabilities during average credit conditions, rather than those prevailing at the balance sheet date, thus seeking to remove cyclicality from the economic capital calculation. The framework also adjusts economic capital to reflect time horizon, correlation of risks and risk concentrations.

Economic capital is allocated on a consistent basis across all of Barclays businesses and risk activities. A single cost of equity is applied to calculate the cost of risk. Economic capital allocations reflect varying levels of risk.

The total average economic capital required by the Group, as determined by risk assessment models and after considering the Group s estimated portfolio effects, is compared with the supply of economic capital to evaluate economic capital utilisation. Supply of economic capital is calculated as the average available shareholders equity after adjustment and including preference shares.

The economic capital methodology will form the basis of the Group s submission for the Basel II Internal Capital Adequacy Assessment Process.

Economic capital supply

The capital resources to support economic capital comprise adjusted shareholders equity including Preference Shares but excluding other minority interests. Preference Shares have been issued to optimise the long-term capital base of the Group.

The capital resources to support economic capital are impacted by a number of factors arising from the application of IFRSs and are modified in calculating available funds for economic capital. This applies specifically to:

- Cash flow hedging reserve to the extent that the Group undertakes the hedging of future cash flows, shareholders equity will include gains and losses which will be offset against the gain or loss on the hedged item when it is recognised in the income statement at the conclusion of the future hedged transaction. Given the future offset of such gains and losses, they are excluded from shareholders equity when calculating economic capital.

- Available for sale reserve unrealised gains and losses on such securities are included in shareholders equity until disposal or impairment. Such gains and losses are excluded from shareholders equity for the purposes of calculating economic capital.

- Retirement benefits liability the Group has recorded a deficit with a consequent reduction in shareholders equity. This represents a non-cash reduction in shareholders equity. For the purposes of calculating economic capital, the Group does not deduct the pension deficit from shareholders equity.

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Risk management

Credit risk management

Credit risk management

Credit risk

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

The granting of credit is one of the Group s major sources of income and as its most significant risk, the Group dedicates considerable resources to controlling it. The importance of credit risk is illustrated by noting that nearly two-thirds of risk-based economic capital is allocated to credit risk. Credit exposures arise principally in loans and advances.

In managing credit risk, the Group applies the five-step risk management process and internal control framework described previously (page 68). The credit risk management teams in each business are accountable to the Business Risk Directors in those businesses who, in turn, report to the heads of their businesses and also to the Risk Director.

These credit risk management teams assist Group Risk in the formulation of Group Risk policy and the implementation of it across the businesses. Examples include:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- country risk policy specifies risk appetite by country and avoids excessive concentration of credit risk in individual countries;
- policies are in place that limit lending to certain industrial sectors (commercial real estate being one example).

Within Group Risk, the Credit Risk function, led by the Credit Risk Director, provides Group-wide direction of credit risk-taking. This functional team manages the resolution of all significant credit policy issues and runs the Credit Committee, which approves major credit decisions.

The principal Committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Group Wholesale Credit Risk Management Committee, the Group Retail Credit Risk Management Committee, the Risk Oversight Committee and the Board Risk Committee (see page 66 for more details of this Committee). The Board Audit Committee also reviews the impairment allowance as part of financial reporting.

Credit risk measurement

Barclays uses statistical modelling techniques throughout its business in its credit rating systems. These systems assist the Bank in frontline credit decisions on new commitments and in managing the portfolio of existing exposures. They enable the application of consistent risk measurement across all credit exposures, retail and wholesale. The key building blocks in the measurement system, which are described below, are the **probability of customer default** (expressed through an internal risk rating), **exposure in the event of default**, and **severity of loss-given-default**. Using these, Barclays builds the analysis that leads to its decision support systems in the Risk Appetite context described previously. However, it should be noted that credit risk measurement, particularly Risk Tendency, can be contrasted with impairment allowances required under accounting standards, which are based on losses known to have been incurred at the balance sheet date and not on expected loss.

Probability of customer default commonly known as Probability of Default (PD): Internal risk ratings

Barclays assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. There are two different categories of default rating used. The first reflects the statistical probability of a customer in a rating class defaulting within the next

12-month period, and is referred to as a point in time rating (PIT). The second also reflects the statistical probability of a customer in a rating class defaulting, but the period of assessment is different, in this case the period is defined as 12 months of average credit conditions for the customer type. This type of rating therefore provides a measure of risk that is independent of the current credit conditions for a particular customer type, is much more stable over time than a PIT rating and is referred to as a through the cycle rating (TTC).

Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency ratings, and for wholesale assets market information such as credit spreads. For smaller credits, a single source may suffice such as the result from a rating model.

In 2005, Barclays improved upon the granularity of its earlier 12-grade internal credit rating scale for wholesale credit. This was achieved by increasing the number of ratings across the same range to 21. The 12-grade rating scale has historically been mapped to long-term agency ratings. The new 21 default grades represent Barclays best estimate of the level of credit risk for each counterparty based on current economic conditions, and as a result a static link to long-term rating agency ratings is no longer used.

Exposure in the event of default   commonly known as Exposure at Default (EAD)

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. At default the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. When the Group evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average usage of their facilities as they approach default.

For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value should counterparties fail to perform their obligations.

Severity of loss given default   commonly known as Loss Given Default (LGD)

When a customer defaults, some part of the amount outstanding on its loans is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process combine to a figure called the LGD. The severity of the LGD is measured as a percentage of the EAD.

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

The level of LGD depends on the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the jurisdiction applicable and work-out expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets or whether businesses can readily be refinanced. Individual defaults show a wide range of outcomes, varying from full to nil recovery and all points in between.

Expected Loss: Risk Tendency

The three components described above   the probability of default, exposure at default and loss given default   are building blocks used in a variety of applications that measure credit risk across the entire portfolio. One of these applications is a measurement of expected loss that we use at Barclays, that we call Risk Tendency (RT).

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RT is a statistical estimate of the average loss for the loan portfolio for a 12-month period, taking into account the portfolio s size and risk characteristics under current credit conditions. It is a PIT measure and therefore requires a point in time PD (PD_{PIT}) as an input. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Group s stock of credit exposures evolves in size or risk profile in the course of business.

RT is calculated for both corporate and retail loans as follows:

RT = PD_{PIT} x EAD x LGD.

The RT of each individual loan is aggregated to produce the RT of the various sub-portfolios in the Group and ultimately for the whole Group. At this aggregate level, RT is a statistical estimate of the average loss over a 12-month period that is inherent in the Group s credit exposures.

Many models are used in the estimation of the components of RT in each of the Group s businesses. The majority of the models are internally developed using Barclays own historical data and other external information. In some cases we use externally developed models and rating tools. The appropriateness of these external models for use within Barclays is validated as part of the model approval process. It is also a Barclays policy that all existing models are validated annually to ensure their applicability to the current portfolios and credit conditions.

To interpret RT, the following should be considered:

- RT is calculated using probabilities of default that are relevant to the current credit conditions for each customer. These figures are therefore a point-in-time estimate based on current economic and credit conditions.

- RT is calculated for different purposes and through different methods to impairment allowances, so RT cannot be used as a forecast of the total allowances for impairment. It is rather a statistical estimate that reflects changes in the size and quality of the loan portfolio. RT does not equate to the Group s budget or internal forecast of impairment allowance in the coming year.

- The principal reasons for the difference between impairment and RT are:

    RT is a forecast estimate of the average loss associated with the current performing portfolio over a 12-month period, impairment is the accounting value of incurred loss realised on the whole portfolio.

    RT covers only the loans at the date of estimation and does not make allowance for subsequent growth or change in the composition of the loan book which can affect impairment.

    RT is a statistical estimate of losses arising only in the current performing loan portfolio and therefore it is not calculated for non-performing loans in the wholesale portfolio or for retail loans in arrears.

    Impairment can include significant additional charges, write-backs and recoveries arising during the year from impaired loans. These items can materially affect the impairment allowance charge, but are not included in RT.

    The actual credit impairment charge arising from new defaults in any one year, from loans that are performing at the start of the year, vary significantly around the RT value. This can be due to changes during the year in the economic environment or in the business conditions in specific sectors or countries and from unpredictable or unexpected external events. This applies especially in wholesale portfolios where the default of a small number of large exposures will significantly increase the period s impairment allowance but will not have been included in the RT figure. For retail portfolios, consisting of a very large number of small exposures, the variation in the rate of change in new impairment compared to the RT figure is usually much smaller than for wholesale portfolios.

RT increased £415m to £2,260m (2005: £1,845m).

UK Retail Banking RT increased £45m to £225m (2005: £180m) reflecting a methodology enhancement to better reflect expected loss rates in the Local Business portfolio.

The increase in Barclaycard RT was £310m, the total rising to £1,410m (2005: £1,100m). This reflected the deterioration in credit conditions in the UK credit card and unsecured loan market as well as loan balance growth.

International Retail and Commercial Banking Absa RT increased £45m, reflecting balance sheet growth, a normalisation of credit conditions in South Africa and by an asset transfer from Absa Capital.

RT in Barclays Capital fell £15m mainly as a result of assets which were transferred to International Retail and Commercial Banking Absa from Absa Capital.

Risk Tendency by business £m

Notes

(a) Of the reduction to Barclays Capital RT, £10m is as a consequence of a transfer of certain assets from Absa Capital to International Retail and Commercial Banking in the second half of 2006. The 2006 Risk Tendency in International Retail and Commercial Banking Absa has increased by an equivalent amount.

(b) Head office functions and other operations comprises discontinued businesses in transition.

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Risk management

Credit risk management

Credit risk mitigation

The Group uses a wide variety of techniques to reduce credit risk on its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. In addition, the Group commonly obtains security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories. The Group also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, financial guarantees, and the use of covenants in commercial lending agreements. Other techniques include the use of credit derivatives and other forms of credit protection.

Barclays manages the diversification of its portfolio to avoid unwanted credit risk concentrations. This takes several dimensions. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to highly rated borrowers than to lower rated borrowers.

They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Risk Oversight Committee and the Board Risk Committee.

Similarly, country risk policy specifies Risk Appetite by country and avoids excessive concentrations of credits in individual countries.

Finally, there are policies that limit lending to certain industries, for example, commercial real estate.

Barclays actively manages its credit exposures. When weaknesses in exposures are detected either in individual exposures or in groups of exposures action is taken to mitigate the risks. These include steps to reduce the amounts outstanding (in discussion with the customers, clients or counterparties if appropriate), the use of credit derivatives and, sometimes, the sale of the loan assets. Credit derivatives are traded for profit and are used for managing credit exposures. Details of these activities may be found in the statistical section (page 97) and Note 52 to the accounts.

Country risk

Country grades

Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty s assets or income being held or generated in hard currency.

Country risk appetite

To manage exposure to country risk the Group uses two country limits: the Prudential Guideline and the Country Guideline. The Prudential Guideline is identified through the strict mapping of a country grade to derive a model-driven acceptable level of loss given default. The Country Guideline for all graded countries is set by the Group Credit Committee (GCC) based on the Prudential Guideline and the internal appetite for country risk. The Country Guideline may therefore be above or below the Prudential Guideline.

Measuring country risk

Country risk is managed through the application of Country Loss Given Default (CLGD). All cross-border or domestic foreign currency transactions incur CLGD from the Country Guideline agreed at GCC. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may be different to the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral definitely covers the borrowing and is not expected to decrease over time.

Country executives

Country Managers are in place for all countries where the Group has exposure and they, under the direction of GCC, have responsibility for allocating country risk to individual transactions. The total allocation of country limits is monitored on a daily basis by Group Credit Risk, as headed by the Group Credit Risk Director. Discretions exist to increase the Country Guideline above the level agreed by GCC where the Country Guideline is below the Prudential Guideline. All requests to increase the Country Guideline in line with individual discretions must be submitted to and applied centrally through Group Credit Risk.

Credit concentration

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Risk Oversight Committee has delegated responsibility for management of retail exposure, which comprises personal lending (including small businesses), mortgages and credit cards, to the Group Retail Credit Risk Management Committee (RCRMC) and wholesale exposure, which comprises lending to businesses, banks and other financial institutions to the Group Wholesale Credit Risk Management Committee (WCRMC). The RCRMC, considers, among others metrics, the ratio of loan to value for home loans and the exposure by the Barclays Retail Grade (BRG) of the customer, whilst the WCRMC monitors exposure by country and by industry sector and individual large exposures and exposures to sub-investment grade countries.

A further protection against undesirable concentration of risk is the mandate and scale framework described on page 69. Mandate and scale limits, which can also be set at Group level to reflect overall risk appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on UK commercial investment property lending, the proportion of lending with maturity in excess of seven years and the proportion of new mortgage business that is buy-to-let.

The concentrations of credit exposure described in the next section (Risk management: loans and advances to customers) and in the statistical sections are not proportionally related to credit loss. Some segments of the Group s portfolio have and are expected to have proportionally higher credit charges in relation to the exposure than others. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus comparatively large credit impairment charges could arise in parts of the portfolio not mentioned below.

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Risk management

Loans and advances to customers

Loans and advances to customers

Geographical analysis of loans and advances to customers %

(See also Table 5 on page 92.)

Geographical analysis and country risk

Loans and advances to customers amounted to £286bn (2005: £272bn, 2004: £207bn).

The geographical analysis presented is based on the location of customers. (See also Table 5 on page 92.)

Barclays exposure limits to sub-investment grade countries are shown in the chart below (largest 15 exposure limits).

Credit exposure limits to sub-investment grade countries £m

The country exposures shown are the sum of customer limits and unused but available product limits. Both domestic and cross-border exposures are included.

Note

(a) From 30th January 2007, India has been regarded as investment grade.

Risk profile of customer loans and advances

The chart below shows Barclays wholesale loan profile by existing risk grade (see page 72 for a description of the rating system). It is important to note that Barclays prices loans for risk. Thus higher risk loans will usually have higher interest rates or fees or both. A portfolio of higher risk loans may therefore be as profitable as, or more profitable than, a portfolio of lower risk loans.

Loans and advances, balances and limits to wholesale customers by internal risk rating %

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Risk management

Loans and advances to customers

Industry analysis

An industry analysis of customer loans is shown in the chart below. These classifications have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the parent s predominant business may be in a different industry. (See also Table 6 on page 93.)

Loans and advances to customers by Industry (% of total)

Excluding financial services, the chart shows that Barclays largest sectoral exposures are to home loans, other personal and business and other services. These categories are generally comprised of small loans, have low volatility of credit risk outcomes, and are intrinsically highly diversified.

Just over two-thirds of the Group s home loans exposure is to customers in the UK. The loan-to-value ratios (LTV) on the Group s UK home loan portfolio are indicated in the next chart.

Analysis of loan-to-value ratios of mortgages in the UK home loan portfolio

The valuations in the chart are those which applied at the last credit decision on each loan, i.e. when the customer last requested an increase in the limit or, if there has been no increase, at inception of the loan and shows that the business flows (new business versus loans redeemed) has not materially changed the risk profile of the portfolio.

The impact of house price inflation will result in a reduction in LTV ratios within the mortgage book on a current valuation basis. On this basis, LTV on the mortgage book averaged 34% at the end of 2006 (2005: 35%). This ratio is a point in time analysis of the stock with LTV updated to current house prices by reference to an external price index and as a result may be influenced by external market conditions as well as changes in the stock of loans.

Maturity analysis

The analysis by contractual maturity, shown in the chart below, indicates that more than a third of loans to customers have a maturity of more than five years, the majority of which are mortgages.

Maturity analysis of loans and advances to customers %

(See also Table 12 on page 96.)

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Risk management

Other credit risks

Other credit risks

In addition to drawn loans and advances, Barclays is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, debt securities and other exposures arising in the course of trading activities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably.

- Loan commitments may become funded loans and the risks are thus similar to loans.

- Contingent liabilities (guarantees, assets pledged as security, acceptances and endorsements) historically experience low loss rates.

- Losses arising from exposures held for trading (derivatives, debt securities) are accounted for as trading losses, rather than credit charges, even though the fall in value causing the loss may be attributable to credit deterioration.

Further details of these exposures are shown in the tables below and Note 39 to the accounts. The most notable other credit risks are to guarantees and irrevocable loan commitments, to settlement risk and to debt securities.

Guarantees and irrevocable loan commitments

The Group is exposed to loss through the financial guarantees it issues to clients and commitments to provide loan finance which cannot be withdrawn once entered in to. The credit risks associated with such contracts are managed in a similar way to loans and advances, and form part of the exposure at default measure.

Settlement risk

Barclays is exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when Barclays pays away its side of the transaction to

another bank or other counterparty before receiving payment from the other side. The risk is that the counterparty may not meet its obligation.

While these exposures are of short duration, they can be large. In recent years settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through Continuous Linked Settlement and delivery-versus-payment).

Barclays has worked with its peers in the development of these arrangements. Increasingly the majority of high value transactions are settled by such mechanisms. Where these mechanisms are not available, the risk is addressed by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty, with smaller exposures to those of higher risk.

Debt securities

Managing the risks associated with debt securities differs in two important respects from the process for loans. Firstly, a market price is generally available for a bond or other debt security, which gives a good indicator of creditworthiness. The financial position of the issuer still needs to be assessed and monitored, just as with the borrower of a loan. Moreover, care needs to be taken when using market price as a proxy for credit risk. To give a simple example, if a bond pays a coupon lower than equivalent market yields, it will tend to trade at below par (say 98 rather than 100) so as to realign the yield to market levels. In this case, the market is not expecting a credit loss of 2% of the face value of the bond.

A second key difference is that many debt securities are rated by independent rating agencies, giving a further indicator of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and rerating. So, while useful, external ratings can only inform and are not a substitute for the credit assessment undertaken for each exposure by Barclays, using its own grading system (see page 74).

Other commercial commitments

	Amount of commitment expiration per period				
	Less than one year £m	Between one to three years £m	Between three to five years £m	After five years £m	Total amounts committed £m
Acceptances and endorsements	281	6			287
Guarantees and letters of credit pledged as collateral security	23,130	1,966	4,048	2,108	31,252
Other contingent liabilities	5,364	1,016	498	1,002	7,880
Documentary credits and other short-term trade related transactions	393	21			414
Forward asset purchases and forward deposits placed	304			56	360
Standby facilities, credit lines and other	146,996	17,998	27,529	12,207	204,730

Contractual obligations

	Payments due by period				
	Less than one year £m	Between one to three years £m	Between three to five years £m	After five years £m	Total £m
Long-term debt	84,802	10,644	4,709	19,346	119,501
Operating lease obligations	344	659	491	2,057	3,551
Purchase obligations	183	186	313	5	687
Total	85,329	11,489	5,513	21,408	123,739

The long-term debt does not include undated loan capital of £5,442m.

Further information on the contractual maturity of the Group s assets and liabilities is given in Note 56.

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Risk management

Potential credit risk loans

Potential credit risk loans

Non-performing loans and potential problem loans

Potential Credit Risk Loans (PCRLs) comprise Non-Performing Loans (NPLs) and potential problem loans (PPLs). NPLs are loans where the customers have failed to meet their repayment commitments, either in part or in whole. PPLs are loans where payment of principal and interest is up-to-date and the loans are therefore fully performing, but where serious doubt exists as to the ability of the borrowers to continue to comply with repayment terms in the near future.

The amounts are shown before deduction of the value of security held, impairment allowances (from 2005 onwards) and provisions or interest suspense (2004 and earlier), all of which might reduce the impact of an eventual loss, should it occur.

The US Securities and Exchange Commission (SEC) requires loans to be classified, where applicable, as non-accrual, accruing past due 90 days or more, troubled debt restructurings and potential problem loans. Whilst the Group s risk procedures do not include the classification of loans along these lines, historically balances have been reported based on the SEC categories but with additional categories reported to reflect the particular circumstances pertaining to the UK market. With effect from 1st January 2005, the application of IAS 39 required interest to be recognised on the remaining balance of an impaired financial asset (or a group of financial assets) at the effective interest rate for that asset. As a result, interest is credited to the income statement in relation to impaired loans, therefore these loans technically are not classified as non-accrual but are, nonetheless, non-performing. In order to reflect this treatment under IAS 39, in 2005 the Group replaced the non-accrual category with one termed Impaired loans . Impaired loans are non-performing loans where, in general, an impairment allowance has been raised. This category may also include non-performing loans which are fully collateralised or where the indebtedness has already been written down to the expected realisable value.

Since 31st December 2005, NPL balances fell by £122m (2%) to £5,088m. In the retail portfolios, NPLs increased by £179m (5%), primarily in the UK unsecured cards and loans portfolios, while those in the wholesale portfolios (including transition balances) decreased by £301m (18%) reflecting the divergent credit environments.

PPL balances decreased by £168m (18%) during 2006 to £761m. This was primarily as a result of a fall in wholesale portfolios which decreased by £202m to £404m reflecting the favourable credit environment.

As a result, overall PCRL balances fell by £288m (5%) to £5,850m, in line with the 3% fall in impairment stocks (see page 81.).

As a result, NPL and PCRL balances as a percentage of impairment stock (coverage ratios) remained broadly stable (see page 79.).

NPL and PPL balances by location

(See also Table 17 on page 98 and Table 18 on page 99.)

NPLs and PPLs as a percentage of Loans and Advances

Notes

(a) In 2002-2003, non-performing loans and potential problem loans were disclosed, based on the location of the booking office. In 2004-2006 they were disclosed by location of customers.

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

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Risk management

Allowances for impairment

Allowances for impairment

Barclays establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book.

Under IFRSs, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset s original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and collateral and the timing of all asset realisations, after allowing for all attendant costs. This method applies in the corporate portfolios Business Banking, Barclays Capital and certain areas within International Retail and Commercial Banking and Barclaycard.

For collective assessment, the trigger point for impairment is the missing of a contractual payment. The impairment calculation is based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default are derived from statistical probabilities based on experience. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio. This method applies to parts of Global Retail and Commercial Banking International, Barclaycard and UK Banking and is consistent with Barclays policy of raising an allowance as soon as impairment is identified.

Unidentified impairment allowances, albeit significantly lower in amount than those reported above, are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported.

The incurred but not yet reported calculation is based on the asset s probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset s original effective interest rate.

The emergence periods vary across businesses and are based on actual experience and are reviewed on an annual basis. This methodology ensures that the Group only captures the loss incurred at the balance sheet date.

These impairment allowances are reviewed and adjusted at least quarterly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement.

Where appropriate, the accuracy of this analysis is periodically assessed against actual losses.

Impairment allowances/provisions stock coverage of non-performing loans and potential credit risk loans

Impairment/provisions coverage of NPLs %

(See also Table 31 on page 103.)

Impairment/provisions coverage of PCRLs %

(See also Table 32 on page 103.)

Including Absa, the NPL coverage ratio decreased to 65.6% (2005: 66.2%) whilst the PCRL coverage ratio increased to 57.0% (2005: 56.2%) at the end of 2006.

Note

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

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Risk management

Allowances for impairment

Writing-off of assets

After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-off will occur, when, and to the extent that, the whole or part of a debt is considered irrecoverable.

The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery. In any event, the position of impaired loans is reviewed at least quarterly to ensure that irrecoverable advances are being written off in a prompt and orderly manner and in compliance with any local regulations.

Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement.

Total write-offs of impaired financial assets increased to £2,174m (2005: £1,587m).

Treatment of interest on impaired loans

IFRSs require that interest on impaired loans be recognised on the net asset value (gross asset value less impairment allowance) at the rate used to discount the expected cash flows (i.e. the original effective interest rate).

Impairment charges for bad and doubtful debts

	2006 £m	2005 £m	2004[a] £m
UK Banking	**461**	327	188
Barclaycard	**1,493**	1,098	761
International Retail and Commercial Banking	**167**	32	31
Barclays Capital	**42**	111	106
Barclays Global Investors			
Barclays Wealth	**2**	2	(1)
Head office and other operations	**(11)**	1	8
Total impairment charges	**2,154**	1,571	1,093

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

The chart below shows impairment charges over the last five years.

Impairment/provisions charges over five years £m

(See also Table 20 on page 99.)

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

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

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

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

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

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

Notes

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

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

(c) Prior year analysis of loans and advances between retail business and wholesale and corporate business has been reclassified to reflect enhanced methodology implemented in current year.

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

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

The total impairment charges and other credit provisions in Barclays Capital included losses of £83m (2005: £nil) on an available for sale portfolio where an intention to sell caused the losses to be viewed as other than temporary in nature.

Movements in allowances for impairment on loans and advances £m

Total impairment allowances at the end of 2006 decreased by 3% (£115m) to £3,335m from the previous year (2005: £3,450m).

An analysis of all movements in the impairment balance is shown in the above chart.

Notes

(a) Prior year analysis of loans and advances between retail business and wholesale and corporate business has been reclassified to reflect enhanced methodology implemented in current year.

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

(c) Represents the increase in the allowance for the period following the Group s assessment of the recoverability of its loans and receivables, in accordance with IAS 39.

(d) Represents net of allowances brought in from new subsidiaries acquired and allowances released following disposal of assets in the year.

(e) Represents recoveries of amounts previously written off.

(f) Includes unwind of discount and other adjustments.

(g) Balances are written off when it is considered that there is no possibility of making further recoveries.

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Risk management

Market risk management

Market risk management

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

The main market risks arise from trading activities. Barclays is also exposed to non-trading market risks relating to asset and liability management and to the Pension Fund.

Categorisation of market risk

To facilitate the management, control, measurement and reporting of market risk, Barclays has grouped market risk into three broad categories:

- Trading market risk

These risks arise in trading transactions where Barclays acts as principal with clients or with the market. Barclays policy is that market risks arising from trading activities are concentrated in Barclays Capital.

- Asset and liability risk

These risks arise from banking activities, including those incurred on non-trading positions such as customer assets and liabilities and capital balances.

- Other market risks

Barclays also incurs market risks that are assessed under a slightly different framework. The principal risks of this type are defined benefit pension scheme risk and asset management structural market risk.

Market risk management and control responsibilities

The Board approves the market risk appetite for all types of market risk. The Market Risk Director is responsible for the market risk control framework and, under delegated authority from the Risk Director, sets a limit framework within the context of the approved market risk appetite. A daily market risk report summarises Barclays market risk exposures against agreed limits. This daily report is sent to the Risk Director, the Market Risk Director, the Finance Director and the appropriate Business Risk Directors.

The Head of each business, assisted by the business risk management team, is accountable for identifying, measuring and managing all market risks associated with its activities. Oversight and support is provided by the Market Risk Director, assisted by the central market risk team.

In Barclays Capital, the Head of Market Risk is responsible for implementing the market risk control framework. Day to day responsibility for market risk lies with the senior management of Barclays Capital, supported by the Market Risk Management team that operates independently of the trading areas. Daily market risk reports are produced for the main Barclays Capital business areas covering the six main risk factor categories, namely interest rate, inflation, credit spread, commodity, equity and foreign exchange. A more detailed trading market risk presentation is produced fortnightly and discussed at Barclays Capital s Traded Products Risk Review meeting. The attendees at this meeting include the senior managers from Barclays Capital and the central market risk team.

Outside Barclays Capital, Treasury manages treasury market risk and structural risk. Retail market risk, a consequence of the UK banking operations, is managed by the Retail Market Risk team. In the non-UK banking operations, market risk is managed mainly by local treasuries. The chart overleaf gives an overview of the business control structure.

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Market risk measurement

The techniques used to measure and control market risk include:

- Daily Value at Risk;
- Stress Tests;
- Annual Earnings at Risk;
- Economic capital.

Daily value at risk (DVaR)

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

In Barclays Capital, DVaR is an important market risk measurement tool. DVaR is calculated using the historical simulation method with a historical sample of two years.

The effectiveness of the DVaR model is assessed principally by back-testing which counts the number of days when trading-related losses are bigger than the estimated DVaR figure. Back-testing results are shown on page 84. Outside Barclays Capital, Barclays uses a simplified approach to calculate DVaR.

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Barclays Capital include risk factor stress testing where stress movements are applied to each of the six main risk categories, namely interest rate, inflation, credit spread, commodity, equity and foreign exchange rate; emerging market stress testing where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying stress scenarios to the trading risk book.

If the potential stress loss exceeds the trigger limit, the positions captured by the stress test are reviewed and discussed by Barclays Capital market risk and the respective Barclays Capital Business Head(s). The minutes of the discussion, including the merits of the position and the appropriate course of action, are then sent to the Market Risk Director for review.

Outside Barclays Capital, stress testing is carried out by the business centres and is reviewed by the senior management and business-level asset and liability committees. The stress testing is tailored to the business and is typically scenario analysis and historical stress movements applied to respective portfolios.

Annual earnings at risk (AEaR)

AEaR measures the sensitivity of annual earnings to shocks in market rates at the 99th percentile for change over a one-year period. This shock is consistent with the standardised interest rate shock recommended by the Basel II framework for assessing banking book interest rate risk.

AEaR is used to measure structural interest rate market risk and structural asset management risk (see the Other market risks section (page 84) for more details).

Economic capital

Economic capital methodologies calculate market risk sensitive capital allocations and are used to determine each business s capital charge.

Trading market risk

Barclays policy is to concentrate trading activities in Barclays Capital. This includes transactions where Barclays Capital acts as principal with clients or with the market. For maximum efficiency, Barclays manages client and market activities together. In Barclays Capital, trading risk occurs in both the trading book and the banking book as defined for regulatory purposes.

In anticipation of future customer demand, Barclays maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments, including a broad range of cash, securities and derivatives. Trading positions and any offsetting hedges are established as appropriate to accommodate customer or Barclays requirements. Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, credit derivatives, options and combinations of these instruments. For a description of the nature of derivative instruments, see page 90.

Analysis of trading market risk exposures

The table below shows the DVaR statistics for Barclays Capital s trading activities (trading book and banking book).

Total DVaR as at 31st December 2006 was £41.9m (31st December 2005: £37.6m[c]). Barclays Capital s market risk exposure, as measured by average total Daily Value at Risk (DVaR), increased by 16% to £37.1m (2005: £32.0m[a]). Interest rate risk fell while non-interest rate risks were higher, primarily in commodities. The range of total DVaR between high and low was consistent with 2005 and diversification across risk types remained significant, reflecting the broad business mix.

Barclays Capital DVaR: Summary table for 2006 and 2005

	12 months to 31st December 2006		
	Average £m	High[b] £m	Low[b] £m
Interest rate risk	20.1	28.8	12.3
Credit spread risk	24.3	33.1	17.9
Commodities risk	11.3	21.6	5.7
Equities risk	7.8	11.6	5.8
Foreign exchange risk	4.0	7.7	1.8
Diversification effect	(30.4)	n/a	n/a
Total DVaR	37.1	43.2	31.3

	12 months to 31st December 2005[a]		
	Average £m	High[b] £m	Low[b] £m
Interest rate risk	25.4	44.8	15.4
Credit spread risk	23.0	28.3	19.0
Commodities risk	6.8	11.4	4.5
Equities risk	6.0	8.3	3.9
Foreign exchange risk	2.8	5.4	1.6
Diversification effect	(32.0)	n/a	n/a
Total DVaR	32.0	40.7	25.4

Notes

(a) 2005 has been restated. The increase reflects the inclusion of Absa Capital.

(b) 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.

(c) This was previously reported as £37.4m. The increase reflects the inclusion of Absa Capital.

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Risk management

Market risk management

The graph below shows the history of total DVaR on a daily basis for 2005 and 2006.

DVaR in 2005 and 2006 (daily values) (£m)

Analysis of trading revenue

The histograms below show the distribution of daily trading revenue for Barclays Capital in 2006 and 2005. It includes dealing profits, net interest income and net fees and commissions relating to primary trading. The average daily revenue in 2006 was £22.0m (2005: £16.3m) and there were 243 positive revenue days out of 252 (2005: 237 positive revenue days out of 252).

Barclays Capital s trading revenue 2006 £m

Barclays Capital s trading revenue 2005 £m

DVaR Back-testing

Barclays recognises the importance of assessing the effectiveness of its DVaR model. The main approach employed is the technique known as back-testing, which counts the number of days when trading losses exceed the estimated DVaR figure. The regulatory standard for back-testing is to measure DVaR assuming a one-day holding period with a 99% level of confidence. For Barclays Capital s regulatory trading book, there were no instances in 2006 or 2005, of a daily trading revenue loss exceeding the corresponding back-testing DVaR.

Asset and liability market risk

Interest rate exposures arising from mismatches of fixed rate assets and liabilities in UK banking operations are passed to Treasury where these positions are aggregated and the net position passed to the market via Barclays Capital. Due mainly to timing considerations, market risk can arise when some of the net position stays with Treasury. Similarly, market risk can arise due to the impact of interest rates on customer behaviour. The latter risk is managed and measured by the Retail Market Risk Team using behavioural models. The positions are converted into wholesale swap or option exposures, passed to Treasury and managed by the process described above.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group s equity. Structural foreign currency risk results from holding non-Sterling investments in subsidiaries, branches, associates or joint ventures. These structural risks are managed by Treasury.

Market risk is also taken in overseas treasuries to support and facilitate customer activity. The risk is comparatively modest. The market risks are managed by local treasury functions and local asset and liability committees. The central market risk team maintains regular contact with the businesses and oversees a comprehensive risk reporting framework.

Other market risks

Defined benefit pension scheme risk

Barclays maintains a number of defined benefit pension schemes for past and current employees. The ability of the Pension Fund to meet the projected pension payments is maintained through investments. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce or because the estimated value of the pension liabilities might increase. In these circumstances, Barclays could be required or might choose to make extra contributions to the pension fund. Financial details of the pension fund are in Note 35.

Asset management structural market risk

Asset management structural market risk is the risk that the value of funds managed by Barclays on behalf of clients might reduce leading to a reduction in fee and commission income. It affects Barclays Global Investors, Global Retail and Commercial Banking, Barclays Wealth and Barclays Life. The risk is controlled and managed by the respective businesses and the central market risk team.

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Risk management

Capital and liquidity risk management

Capital and liquidity risk management

The Board Risk Committee has approved minimum control requirements for capital and liquidity risk management.

The Treasurer has established risk control frameworks and a policy and assurance structure to ensure that capital and liquidity risks are managed in accordance with the requirements of the Board. Policies are set by the Treasury Committee which is chaired by the Group Finance Director.

Capital risk management

The Group manages its capital resources to meet regulatory capital requirements. The FSA requires the Group to hold sufficient capital resources to meet minimum regulatory capital requirements. In addition, the Group manages its capital resources to maintain financial holding company status under the rules of the US Federal Reserve Bank and also to ensure Group entities, that are subject to local capital adequacy regulation in individual countries, meet their minimum capital requirements.

Minimum requirements under FSA rules are expressed as the ratio of capital resources to risk weighted assets (Risk Asset Ratio). Risk weighted assets are a function of risk weights applied to the Group s assets using calculations developed by the Basel Committee for Banking Supervision. In anticipation of the Group s implementation of the new Basel II standards on 1st January 2008, the Group will also manage its capital resources in accordance with the Basel II advanced approaches during 2007.

In 2006, the Group continued to manage its capital resources, including accessing the capital markets, in order to exceed the minimum capital requirements of its regulators. As at December 2006, the Barclays Group Risk Asset Ratio was 11.7% and the Tier 1 Ratio was 7.7%.

The graph shows the Group s regulatory capital resources broken down by tier. Further information on the Group s capital resources is provided in the Financial Review on pages 54 and 56.

Regulatory capital resources by tier £m

Liquidity risk management

This is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend. The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Note

(a) Less supervisory deductions.

Liquidity management within the Group has several strands:

- Day to day funding, managed by monitoring expected cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable that to happen.

- Maintain a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

- Monitor, manage and control intraday liquidity in real time is recognised by the Group as a mission critical process: any failure to meet specific intraday commitments would have significant consequences.

- Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group s liquidity at risk.

The ability to raise funds is in part dependent on maintaining the Bank s credit rating. The funding impact of a credit downgrade is regularly estimated. Whilst the impact of a single downgrade may affect the price at which funding is available, the effect on liquidity is not considered material in Group terms.

Liquidity risk measurement

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. This is based on principles agreed by the FSA.

In addition to cash flow management, Treasury also monitors unmatched medium-term assets and the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Treasury develops and implements stress tests on the Group s projected cash flows. The output informs the Group s contingency funding plan. This is maintained by Treasury and is aligned with the Group and country business resumption plans to encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term. Whilst the past year saw relatively stable markets, with no significant consequences for the Group s liquidity, significant market events over recent years including corporate scandals contributed to a short-term flight to quality in financial markets from which Barclays benefited.

An important source of structural liquidity is provided by our core retail deposits in the UK, Europe and Africa, mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts at short notice, the Group s broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group s operations and liquidity needs.

To avoid reliance on a particular group of customers or market sectors, the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are competitive rates and the maintenance of depositors confidence. Such confidence is based on a number of factors including the Group s reputation, the strength of earnings and the Group s financial position.

For further details see contractual cash obligations and commercial commitments of the Group on page 77.

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Risk management

Operational risk and business risk management

Operational risk and business risk management

Operational and business risks are inherent in Barclays operations and are typical of any large enterprise.

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

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include: revenue volatility due to factors such as macroeconomic conditions; inflexible cost structures; uncompetitive products or pricing; and structural inefficiencies.

Barclays is committed to the advanced management of operational and business risks. In particular, we are implementing improved management and measurement approaches for operational risk to strengthen control, improve customer service and minimise operating losses. In addition, this investment is being made to improve risk sensitivity, to enhance the Operational Risk Capital model and to obtain approval to apply the Advanced Measurement Approach under the Basel II Accord when that option first becomes available in 2008. Barclays works closely with peer banks to benchmark our internal Operational Risk practices and to drive the development of advanced Operational Risk techniques across the industry.

It is not cost effective to attempt to eliminate all operational and business risks and in any event it would not be possible to do so. Events of small significance are expected to occur and are accepted as inevitable; events of material significance are rare and the Group seeks to reduce the risk from these in a framework consistent with its agreed Risk Appetite.

Responsibility for and control of operational risk

Barclays has a Group Operational Risk Framework, which is consistent with and part of the Group Internal Control and Assurance Framework. Minimum control requirements have been established for all key areas of identified risk. The risk categories relevant to operational and business risks are: Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory Compliance, Technology, Brand Management, Change, Corporate Responsibility and Strategic.

Responsibility for implementing and overseeing these policies is to be found throughout the organisation as follows:

- The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. Frontline risk managers are widely distributed throughout the Group in business units. They service and support these areas assisting line managers in managing these risks.

- Business Risk Directors in each business are responsible for overseeing the implementation of and compliance with Group policies.

- Governance and Control Committees in each business monitor control effectiveness. The Group Governance and Control Committee receive reports from the committees in the businesses and considers Group-wide control issues and their risk mitigation.

- In the corporate centre, the Operational Risk Director oversees the range of operational risks across the Group in accordance with the Group Operational Risk Framework.

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The Internal Audit function provides assurance for operational risk control across the organisation and reports to the Board and senior management.

The management and measurement of operational risk

A consistent approach to the identification and assessment of key risks and controls is undertaken across all business units. Self-assessment techniques are used by business management for risk identification and for evaluation of control effectiveness and monitoring capability. Business management determines whether particular risks are effectively managed within business risk appetite and otherwise take remedial action. The risk assessment process is consistent with the principles in the integrated framework published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Risk event data collection and reporting

A standard process is used Group-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the Operational Risk Executive Committee.

Barclays also uses a database of external public risk events and is part of a consortium of international banks that share anonymised loss data information to assist in risk identification and assessment.

Key risk scenarios

Using the above components of the Operational Risk Framework we generate Key Risk Scenarios which identify our most significant operational risks across the Group. It is these that are the main input to our economic capital model.

Reporting

Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the key risks to their business objectives, control issues of Group-level significance, and operational risk events. Specific reports are prepared on a regular basis for the Risk Oversight Committee, the Board Risk Committee and the Board Audit Committee. In particular the Group Operational Risk Profile Report is provided quarterly to the Risk Oversight Committee.

Economic capital

Methodologies are used to model both operational and business risk exposures. These are allocated, on a risk sensitive basis, to business units in the form of economic capital charges, providing an incentive to manage these risks within appetite levels.

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Risk management

Group model policy and taxation risk management

Group model policy

Barclays has a large number of models in place across the Group, covering all risk types, including Credit Risk, Market Risk, Operational Risk, and Finance. To minimise the risk of loss through model failure, a Group Policy for the Control of Model Risk has been developed. The Policy helps reduce the potential for model failure by setting minimum standards around the end-to-end model development and implementation process. The Policy also sets the Group governance processes for all models, which allows model risk to be monitored across the Group, and seeks to identify and escalate any potential problems at an early stage.

The key areas where minimum requirements are defined are:

Model materiality

To help ensure that sufficient management time is spent on the more material models, there is a method of providing each model with a materiality rating. The materiality rating for an individual model depends on the assets for which the model is used and the Expected Loss and Economic Capital associated with the assets. Models of higher materiality are subject to higher levels of independent scrutiny and challenge prior to implementation.

Model documentation

Documentation should be sufficiently detailed to allow an expert to recreate the model from the original data sources. It must include a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), a description of any assumptions used in the model, and details of where the model works well, and areas that are known as model weaknesses.

Initial model validation

All models are subject to a validation and independent review process before the model can be signed-off for implementation. The model validation exercise must demonstrate that the model is fit for purpose and provides accurate estimates. The independent review process will also ensure that all aspects of the model development process have been performed in a suitable manner.

Model sign-off

The rules for model sign-off are based on model materiality. The sign-off process ensures that the model is technically fit for purpose as well as ensuring that the model satisfies the business requirements and all the relevant regulatory requirements. The most material models used within the Group receive their final sign-off for implementation from Group ExCo, while other models are usually signed-off by their respective business risk committees.

Basel II models

Barclays has spent a considerable amount of time in developing and upgrading a number of credit risk models across the Group moving towards compliance with the Basel II advanced approach. As part of this process all Basel credit risk models are assessed against the Basel II minimum requirements prior to model sign-off to ensure that once signed-off they are fit to be used for regulatory purposes. Basel II models will also be used during the 2007 parallel run process in anticipation of implementation from 1st January 2008 in accordance with Basel requirements.

Ongoing model validation and monitoring

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

Taxation risk

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

Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities.

Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

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

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

- the tax charge is also reviewed by the Board Audit Committee.

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

- the Group takes appropriate advice from reputable professional firms;

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

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

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

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

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Risk management

Insurance risk management

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

Long-term insurance business

For long-term insurance contracts where death is the insured risk, the most significant factors that could detrimentally affect the frequency and severity of claims are the incidence of disease, such as AIDS, or general changes in lifestyle, such as in eating, exercise and smoking. Where survival is the insured risk, advances in medical care and social conditions are the key factors that increase longevity. The Group manages its exposure to risk by operating in part as a unit linked business, prudent product design, applying strict underwriting criteria, transferring risk to reinsurers, managing claims and establishing prudent reserves.

Short-term insurance business

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

Absa insures property and motor vehicles, for which the most significant factors that could affect the frequency and severity of claims are climatic change and crime. Absa manages its exposure to risk by diversifying insurance risks accepted and transferring risk to reinsurers. See page 232 for further information.

Reinsurer credit risk

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

For the short-term business a quota-share programme is in place for selected in-force policies. The structure of the treaty ensures that the underlying assets are bankruptcy remote in the event of credit problems with the reinsurer.

Disclosures about certain trading activities (including non-exchange traded commodity contracts)

The Group delivers a fully integrated service to clients for base metals, precious metals, oil and oil-related products, power, natural gas and other related commodities.

The Group s commodity business continues to expand, as market conditions allow, through the addition of new products and markets, with the 2006 expansion of business being driven by both organic growth and acquisitions of portfolios.

The Group offers both over the counter (OTC) and exchange traded derivatives in these commodities. The Group s base metals business also enters into outright metal purchases and sale transactions, while the power and gas business trades both physical forwards and derivative contracts. The Group does not maintain any physical exposures in oil or oil related products. The Group continues to develop and offer a range of commodity-related structured products.

The Group s principal commodity related derivative contracts are swaps, options, forwards and futures, which are all similar in nature to such non-commodity related contracts. Commodity derivative contracts include commodity specification and delivery location as well as forward date and notional value.

The fair values of commodity physical and derivative positions are determined through a combination of recognised market observable prices, exchange prices, and established inter-commodity relationships. The fair value of OTC commodity derivative contracts is determined primarily by using valuation models which are based on assumptions supported by prices from observable market transactions in the same instrument or are based on available observable market data.

Where a valuation model is used, the fair value is determined based on the expected cash flows under the terms of each specific contract, discounted back to present value. The expected cash flows for each contract are either determined using market parameters such as commodity price curves, commodity volatilities, commodity correlations, interest rate yield curves and foreign exchange rates, or other market prices.

Where possible, fair values generated by models are independently validated with reference to market price quotes or price sharing with other institutions. Where all significant model inputs can be validated to observable market data at the inception of the contract the valuation of the contract is based on the model value output.

However, where no observable market parameter is available then the contract is valued at transaction price at inception. Following initial recognition, the process of calculating fair value from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model, market data and any assumptions or estimates are all subject to internal review and approval procedures and consistent application between accounting periods.

The tables on page 89 analyse the overall fair value of the commodity derivative contracts by movement over time and source of fair value. Additionally, the positive fair value of these contracts is analysed by counterparty credit risk rating.

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The following tables analyse the overall fair value of the commodity derivative contracts by movement over time and source of fair value. As at 31st December 2006 this reflects a gross positive fair value of £17,502m (31st December 2005: £21,744m) and a gross negative value of £15,940m (31st December 2005: £21,217m). Realised and unrealised profits relating to physical commodity and commodity derivative activities are included within dealing profits. Physical commodity positions are held at fair value and reported under the Trading Portfolio in Note 12 on page 170.

	Total 2006 £m	Total 2005 £m
Fair value of contracts outstanding at the beginning of the period	527	175
Contracts realised or otherwise settled during the period	379	(137)
Fair value of new contracts entered into during the period	808	156
Other changes in fair values	(152)	333
Fair value of contracts outstanding at the end of the period	1,562	527

Movement in fair value of commodity derivative positions

Fair value source and maturity analysis

	Fair value of contracts at 31st December 2006			
Source of fair value	Maturity less than one year £m	Maturity one to five years £m	Maturity in excess of five years £m	Total fair value £m
Valuation models supported by observable market data	893	322	315	1,536
Valuation models not supported by observable market data	9	6	17	26
Total	902	328	332	1,562

The following table analyses the positive fair value arising on commodity derivative contracts. As at 31st December 2006, this reflected a gross positive fair value of £17,501m (31st December 2005: £21,744m).

Analysis of gross positive commodity derivative fair value by counterparty credit risk rating

S&P equivalent rating[(a)]	Total value 2006 £m	Total value 2005 £m
A- to AAA	14,184	12,234
BBB- to BBB+	1,826	8,726
BB+ and below	1,491	784
Total	17,501	21,744

Credit risk exposures are actively managed by the Group. Refer to page 72 for more information on the Group s approach to credit risk management. At 31st December 2006, 87% of all commodities credit exposure was to counterparties with cross asset class netting agreements which allow exposure on commodities products to be reduced by amounts owed to the same counterparties in other asset classes. 69% of commodities credit exposure to counterparties with BBB+ and below equivalent ratings was to counterparties with cross asset class netting agreements.

Additionally, collateral agreements are held with a majority of these same counterparties that allow collateral to be called against commodity exposures. All non-collateralised exposures are subject to credit limits, and credit or Risk Tendency reserves are created against these exposures if appropriate.

Note

(a) Barclays assesses the credit quality and assigns an internal risk rating to all counterparties. Each internal rating corresponds to the statistical probability of a counterparty in that rating class defaulting within the next 12-month period. The counterparty ratings shown in the table above are based on the approximate S&P equivalent of the Barclays internal rating.

Risk management

Derivatives

Derivatives

The use of derivatives and their sale to customers as risk management products are an integral part of the Group s trading activities. These instruments are also used to manage the Group s own exposure to fluctuations in interest, exchange rates and commodity and equity prices as part of its asset and liability management activities.

Barclays Capital manages the trading derivatives book as part of the market risk book. This includes foreign exchange, interest rate, equity, commodity and credit derivatives. The policies regarding market risk management are outlined in the market risk management section on pages 82 to 84.

The policies for derivatives that are used to manage the Group s own exposure to interest and exchange rate fluctuations are outlined in the asset and liability market risk section on page 84.

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group s net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

The Group participates both in exchange traded and over the counter derivatives markets.

Exchange traded derivatives

The Group buys and sells financial instruments that are traded or cleared on an exchange, including interest rate swaps, futures and options on futures. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

Over the counter traded derivatives

The Group also buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange.

These instruments range from commoditised transactions in derivative markets, to trades where the specific terms are tailored to the requirements of the Group s customers. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default.

Foreign exchange derivatives

The Group s principal exchange rate related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group s principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Credit derivatives

The Group s principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection.

A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer in return receives a predetermined amount.

Equity derivatives

The Group s principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date.

Commodity derivatives

The Group s principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

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Statistical and other risk information

This section of the report contains supplementary information that is more detailed or contains longer histories than the data presented in the discussion. For commentary on this information, please refer to the preceding text (pages 72 to 103).

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

N/a has been included in the tables where, as a result of the application of IAS 32, IAS 39 and IFRS 4 in 2005 and UK GAAP in 2004, the disclosure is not applicable.

Credit risk management

Table 1: Risk Tendency by business

	2006 £m	2005 £m
UK Banking	515	430
UK Retail Banking	225	180
UK Business Banking	290	250
Barclaycard	1,410	1,100
International Retail and Commercial Banking	220	175
International Retail and Commercial Banking excluding Absa	75	75
International Retail and Commercial Banking Absa	145	100
Barclays Capital	95	110
Barclays Wealth	10	5
Head office functions and other operations[a]	10	25
Risk Tendency by business	2,260	1,845

(Also see chart on page 73.)

Table 2: Loans and advances

	2006 £m	2005 £m
Retail businesses		
Banks		
Customers	139,350	134,420
Total retail businesses[b]	139,350	134,420
Wholesale businesses		
Banks	30,930	31,109
Customers	146,281	137,922
Total wholesale businesses[b]	177,211	169,031

Loans and advances	**316,561**	303,451

Notes

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

(b) Prior year analysis of loans and advances between retail business and wholesale and corporate business has been reclassified to reflect enhanced methodology implemented in the current year.

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Table 3: Maturity analysis of loans and advances to banks

At 31st December 2006	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
United Kingdom	524	5,211	110	18	43	10		313	6,229
Other European Union	619	7,514	90	130	81	78	1		8,513
United States	431	2,592	363	2,634	5	809	923	1,299	9,056
Africa	701	1,027	83	91	188	85	44		2,219
Rest of the World	612	2,465	154	191	1,278	148	44	21	4,913
Loans and advances to banks	2,887	18,809	800	3,064	1,595	1,130	1,012	1,633	30,930

At 31st December 2005	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
United Kingdom	369	3,647	31	126	162	19	2	268	4,624
Other European Union	585	4,642	122	23	38	12	1		5,423
United States	514	3,098	1,736	2,909	1,466	634	1,025	1,885	13,267
Africa	722	80	3	3	48	11		13	880
Rest of the World	1,739	4,454	114	108	138	103	19	240	6,915
Loans and advances to banks	3,929	15,921	2,006	3,169	1,852	779	1,047	2,406	31,109

Table 4: Interest rate sensitivity of loans and advances to banks[a]

	2006			2005		
At 31st December	Fixed rate £m	Variable rate £m	Total £m	Fixed rate £m	Variable rate £m	Total £m

United Kingdom	**4,710**	**1,519**	**6,229**	1,384	3,240	4,624
Other European Union	**2,907**	**5,606**	**8,513**	690	4,733	5,423
United States	**1,780**	**7,276**	**9,056**	1,683	11,584	13,267
Africa	**839**	**1,380**	**2,219**	69	811	880
Rest of the World	**1,940**	**2,973**	**4,913**	3,709	3,206	6,915
Loans and advances to banks	**12,176**	**18,754**	**30,930**	7,535	23,574	31,109

Table 5: Interest rate sensitivity of loans and advances to customers[(a)]

	2006			2005		
At 31st December	**Fixed rate £m**	**Variable rate £m**	**Total £m**	Fixed rate £m	Variable rate £m	Total £m
United Kingdom	**43,700**	**126,818**	**170,518**	49,988	113,771	163,759
Other European Union	**9,258**	**34,172**	**43,430**	7,317	31,606	38,923
United States	**4,818**	**20,859**	**25,677**	2,260	20,665	22,925
Africa	**3,952**	**27,739**	**31,691**	4,314	28,907	33,221
Rest of the World	**4,272**	**10,043**	**14,315**	5,604	7,910	13,514
Loans and advances to customers	**66,000**	**219,631**	**285,631**	69,483	202,859	272,342

Note

(a) Where a loan is earning a fixed rate of interest on the reporting date, it is included as a fixed rate loan, regardless of the term for which the rate is fixed.

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Table 6: Loans and advances to customers by industry

		IFRS		UK GAAP	
	2006	2005	2004[a]	2003	2002
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**45,954**	43,102	25,132	9,872	7,587
Agriculture, forestry and fishing	**3,997**	3,785	2,345	2,115	2,069
Manufacturing	**15,451**	13,779	9,044	7,844	9,002
Construction	**4,056**	5,020	3,278	2,534	2,229
Property	**16,528**	16,325	8,992	6,728	5,863
Energy and water	**6,810**	6,891	3,709	3,150	3,988
Wholesale and retail, distribution and leisure	**15,490**	17,760	11,099	9,628	8,415
Transport	**5,586**	5,960	3,742	3,654	3,900
Postal and communication	**2,180**	1,313	834	698	950
Business and other services	**29,425**	24,247	23,223	13,913	14,179
Home loans[b]	**98,172**	89,529	80,855	72,318	64,738
Other personal	**31,840**	35,543	27,602	23,922	22,272
Overseas customers[c]				8,666	10,635
Finance lease receivables	**10,142**	9,088	6,938	5,877	4,389
Loans and advances to customers excluding reverse repurchase agreements	**285,631**	272,342	206,793	170,919	160,216
Reverse repurchase agreements	**n/a**	n/a	58,304	n/a	n/a
Trading business	**n/a**	n/a	n/a	58,961	45,176
Loans and advances to customers	**285,631**	272,342	265,097	229,880	205,392

Table 7: Loans and advances to customers in the UK

		IFRS		UK GAAP	
	2006	2005	2004[a]	2003	2002
At 31st December	**£m**	£m	£m	£m	£m
Financial services	**14,011**	11,958	8,774	7,721	6,158
Agriculture, forestry and fishing	**2,307**	2,409	1,963	1,766	1,747
Manufacturing	**9,047**	8,469	5,684	5,967	6,435
Construction	**2,761**	3,090	2,285	1,883	1,825
Property	**10,010**	10,547	7,912	6,341	5,695
Energy and water	**2,360**	2,701	802	1,286	1,290
Wholesale and retail distribution and leisure	**12,951**	12,747	9,356	8,886	7,858
Transport	**2,745**	2,797	1,822	2,579	2,366
Postal and communication	**899**	455	440	476	694
Business and other services	**19,266**	15,403	13,439	12,030	11,693
Home loans[b]	**67,687**	61,256	63,039	61,905	58,436
Other personal	**22,551**	26,724	25,181	21,905	21,357
Overseas customers[c]				5,477	6,201
Finance lease receivables	**3,923**	5,203	5,551	5,587	4,145
Loans and advances to customers in the UK	**170,518**	163,759	146,248	143,809	135,900

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

The industry classifications in Tables 6-10 have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the parent s predominant business may be in a different industry.

Notes

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

(b) Excludes commercial property mortgages.

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

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Table 8: Loans and advances to customers in other European Union countries

		IFRS		UK GAAP	
	2006	2005	2004[a]	2003	2002
At 31st December	£m	£m	£m	£m	£m
Financial services	5,629	3,982	2,419	1,205	371
Agriculture, forestry and fishing	786	155	280	147	165
Manufacturing	3,147	2,254	2,021	1,275	1,422
Construction	639	803	716	609	314
Property	2,162	3,299	344	346	137
Energy and water	2,050	1,490	940	409	367
Wholesale and retail distribution and leisure	776	952	810	426	215
Transport	1,465	1,695	640	566	252
Postal and communication	580	432	111	40	173
Business and other services	2,349	3,594	3,795	1,251	1,648
Home loans[b]	18,616	16,488	11,828	10,334	6,243
Other personal	3,672	1,909	1,369	1,769	721
Overseas customers[c]				438	384
Finance lease receivables	1,559	1,870	937	212	167
Loans and advances to customers in other European Union countries	43,430	38,923	26,210	19,027	12,579

See note under Table 7.

Table 9: Loans and advances to customers in the United States

		IFRS		UK GAAP	
	2006	2005	2004[a]	2003	2002
At 31st December	£m	£m	£m	£m	£m
Financial services	17,516	16,229	9,942	919	1,036
Agriculture, forestry and fishing	2	1		1	3
Manufacturing	519	937	388	341	842
Construction	13	32	139	2	31
Property	1,714	329	394	1	15
Energy and water	1,078	1,261	891	1,358	2,229
Wholesale and retail distribution and leisure	403	794	466	77	141
Transport	128	148	186	468	1,248
Postal and communication	36	236	63	153	46
Business and other services	1,585	1,185	1,565	220	441
Home loans[b]	349	2	5,768		
Other personal	2,022	1,443	845		
Overseas customers[c]					62
Finance lease receivables	312	328	335	33	44
Loans and advances to customers in the United States	25,677	22,925	20,982	3,573	6,138

See note under Table 7.

Notes

(a) Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. The 2004 analysis excludes reverse repurchase agreements.

(b) Excludes commercial property mortgages.

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

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Table 10: Loans and advances to customers in Africa

At 31st December	2006 £m	IFRS 2005 £m	2004[a] £m	UK GAAP 2003 £m	2002 £m
Financial services	2,821	4,350	186	27	22
Agriculture, forestry and fishing	889	1,193	102	201	154
Manufacturing	1,747	1,501	313	261	303
Construction	591	1,068	76	40	59
Property	1,987	1,673	87	40	16
Energy and water	156	193	184	97	102
Wholesale and retail distribution and leisure	1,050	2,774	165	239	201
Transport	354	394	137	41	34
Postal and communication	241	27	52	29	37
Business and other services	3,416	1,883	1,012	412	397
Home loans[b]	11,223	11,630	214	79	59
Other personal	2,976	4,955	190	248	194
Finance lease receivables	4,240	1,580	41	45	33
Loans and advances to customers in Africa	31,691	33,221	2,759	1,759	1,611

See note under Table 7.

Table 11: Loans and advances to customers in the Rest of the World

At 31st December	2006 £m	IFRS 2005 £m	2004[a] £m	UK GAAP 2003 £m	2002 £m
Loans and advances	14,207	13,407	10,520	2,751	3,988
Finance lease receivables	108	107	74		
Loans and advances to customers in the Rest of the World	14,315	13,514	10,594	2,751	3,988

Notes

(a) Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. The 2004 analysis excludes reverse repurchase agreements.

(b) Excludes commercial property mortgages.

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Table 12: Maturity analysis of loans and advances to customers

At 31st December 2006	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
United Kingdom Corporate lending[a]	22,923	13,569	2,262	2,850	7,562	8,499	8,349	10,342	76,356
Other lending to customers in the United Kingdom	3,784	4,427	2,110	3,586	11,937	7,459	16,358	44,501	94,162
Total United Kingdom	26,707	17,996	4,372	6,436	19,499	15,958	24,707	54,843	170,518
Other European Union	2,137	6,254	1,744	2,869	4,783	4,397	6,565	14,681	43,430
United States	2,489	11,630	1,689	3,402	1,949	1,871	1,464	1,183	25,677
Africa	2,575	2,471	1,272	2,177	5,212	4,177	3,555	10,252	31,691
Rest of the World	86	6,377	1,015	1,020	1,116	1,465	1,800	1,436	14,315
Loans and advances to customers	33,994	44,728	10,092	15,904	32,559	27,868	38,091	82,395	285,631

At 31st December 2005	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
United Kingdom Corporate lending[a]	14,305	13,108	1,857	2,894	6,494	8,061	7,207	16,651	70,577
Other lending to customers in the United Kingdom	10,251	7,167	5,948	8,564	17,098	7,266	5,224	31,664	93,182
Total United Kingdom	24,556	20,275	7,805	11,458	23,592	15,327	12,431	48,315	163,759
Other European Union	1,518	5,596	1,266	2,827	3,902	4,712	5,537	13,565	38,923
United States	3,534	8,258	1,172	4,831	1,221	1,568	1,196	1,145	22,925
Africa	5,176	3,240	353	2,539	1,829	5,282	5,743	9,059	33,221
Rest of the World	161	6,911	736	215	710	1,078	1,933	1,770	13,514
Loans and advances to customers	34,945	44,280	11,332	21,870	31,254	27,967	26,840	73,854	272,342

(Also see chart on page 76.)

Table 13: Loans and advances to borrowers in currencies other than the local currency of the borrower for countries where this exceeds 1% of total Group assets

		As % of assets	Total £m	Banks and other financial institutions £m	Governments and official institutions £m	Commercial industrial and other private sectors £m
At 31st December 2006	**IFRS United States**	1.7	16,579	7,307	89	9,183

At 31st December 2005 IFRS					
United States	2.6	24,274	15,693		8,581
At 31st December 2004 IFRS[b]					
United States	4.0	21,556	10,102	2	11,452
Germany	1.3	7,128	6,614		514
France	1.0	5,562	5,019	27	516

At 31st December 2006, 2005 and 2004, on an IFRS basis[b], there were no countries where Barclays had cross-currency loans to borrowers between 0.75% and 1% of total Group assets.

Notes

(a) In the UK, finance lease receivables are included in Other lending, although some leases are to corporate customers.

(b) 2004 does not reflect the applications of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. Further explanation is provided on page 144.

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Table 14: Off-balance sheet and other credit exposures as at 31st December

	2006 £m	2005 £m	2004[a] £m
Off-balance sheet exposures			
Contingent liabilities	39,419	47,143	38,559
Commitments	205,504	203,785	134,051
On-balance sheet exposures			
Balances arising from off-balance sheet financial instruments (OTC derivatives)	n/a	n/a	18,174
London Metal Exchange warrants and other trading positions	n/a	n/a	952
Debt securities held for trading	n/a	n/a	87,594
non-trading	n/a	n/a	42,717
Trading portfolio assets	177,867	155,723	n/a
Financial assets designated at fair value held on own account	31,799	12,904	n/a
Derivative financial instruments	138,353	136,823	n/a
Available for sale financial instruments	51,703	53,497	n/a

Table 15: Notional principal amounts of credit derivatives as at 31st December

	2006 £m	2005 £m	2004[a] £m
Credit derivatives held or issued for trading purposes[b]	1,224,548	609,381	186,275
Credit derivatives held for risk management purposes			5,133
Total	1,224,548	609,381	191,408

Table 16: Non-performing loans summary

	IFRS			UK GAAP	
	2006 £m	2005 £m	2004[a] £m	2003 £m	2002 £m
Impaired loans	4,444	4,550	n/a	n/a	n/a
Non-accruing loans	n/a	n/a	2,115	2,261	2,542
Accruing loans where interest is being suspended with or without provisions	n/a	n/a	492	629	611
Other accruing loans against which provisions have been made	n/a	n/a	943	821	819
Subtotal	4,444	4,550	3,550	3,711	3,972
Accruing loans which are contractually overdue 90 days or more as to principal or interest	598	609	550	590	690
Restructured loans	46	51	15	4	6
Non-performing loans	5,088	5,210	4,115	4,305	4,668

Notes

(a) 2004 does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005. Further explanation is provided on page 144.

(b) Includes credit derivatives held as economic hedges which are not designated as hedges for accounting purposes.

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Table 17: Non-performing loans

		IFRS		UK GAAP	
	2006 £m	2005 £m	2004[a] £m	2003 £m	2002 £m
Impaired loans:					
United Kingdom	3,340	2,965	n/a	n/a	n/a
Other European Union	410	345	n/a	n/a	n/a
United States	129	230	n/a	n/a	n/a
Africa	535	831	n/a	n/a	n/a
Rest of the World	30	179	n/a	n/a	n/a
Total	4,444	4,550	n/a	n/a	n/a
Non-accrual loans:					
United Kingdom	n/a	n/a	1,509	1,572	1,557
Other European Union	n/a	n/a	243	143	108
United States	n/a	n/a	258	383	744
Africa	n/a	n/a	74	86	72
Rest of the World	n/a	n/a	31	77	61
Total	n/a	n/a	2,115	2,261	2,542
Accruing loans where interest is being suspended with or without provisions:					
United Kingdom	n/a	n/a	323	559	480
Other European Union	n/a	n/a	31	29	35
United States	n/a	n/a			
Africa	n/a	n/a	21	37	44
Rest of the World	n/a	n/a	117	4	52
Total	n/a	n/a	492	629	611
Other accruing loans against which provisions have been made:					
United Kingdom	n/a	n/a	865	760	751
Other European Union	n/a	n/a	27	35	27
United States	n/a	n/a	26		
Africa	n/a	n/a	21	22	8
Rest of the World	n/a	n/a	4	4	33
	n/a	n/a	943	821	819

Total					
Accruing loans which are contractually overdue 90 days or more as to principal or interest:					
United Kingdom	**516**	539	513	566	687
Other European Union	**58**	53	34	24	3
United States	**3**		1		
Africa	**21**	17	1		
Rest of the World			1		
Total	**598**	609	550	590	690
Restructured loans:					
United Kingdom		5	2	4	4
Other European Union	**10**	7			
United States	**22**	16	13		
Africa	**14**	23			
Rest of the World					2
Total	**46**	51	15	4	6
Total non-performing loans:					
United Kingdom	**3,856**	3,509	3,212	3,461	3,479
Other European Union	**478**	405	335	231	173
United States	**154**	246	298	383	744
Africa	**570**	871	117	145	124
Rest of the World	**30**	179	153	85	148
Non-performing loans	**5,088**	5,210	4,115	4,305	4,668

(Also see chart on page 78.)

Note

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

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Table 18: Potential problem loans

	2006 £m	IFRS 2005 £m	2004[(a)] £m	UK GAAP 2003 £m	2002 £m
United Kingdom	465	640	658	989	852
Other European Union	32	26	32	23	
United States	21	12	27	259	241
Africa	240	248	67	53	63
Rest of the World	3	3	14	3	6
Potential problem loans	761	929	798	1,327	1,162

(Also see chart on page 78.)

Table 19: Interest foregone on non-performing loans

	2006 £m	2005 £m	2004 £m
Interest income that would have been recognised under the original contractual terms			
United Kingdom	357	304	266
Rest of the World	70	52	52
Total	427	356	318

Interest income of approximately £72m (2005: £29m, 2004: £59m) from such loans was included in profit, of which £49m (2005: £20m, 2004: £54m) related to domestic lending and the remainder related to foreign lending.

In addition, a further £98m (2005: £76m, 2004: £n/a) was recognised arising from impaired loans. Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the expected future cash flows for the purpose of measuring the impairment loss. £88m (2005: £70m, 2004: £n/a) of this related to domestic impaired loans and the remainder related to foreign impaired loans.

Table 20: Analysis of impairment/provision charges

	2006 £m	IFRS 2005 £m	2004[(a)] £m	UK GAAP 2003 £m	2002 £m
Impairment charge/net specific provisions charge					
United Kingdom	1,880	1,382	1,021	1,132	1,041
Other European Union	92	75	102	37	14
United States	12	76	57	84	385
Africa	143	37	27	21	24
Rest of the World	(53)	4	103	46	22
Impairment on loans and advances	2,074	1,574	n/a	n/a	n/a
Impairment on available for sale assets	86	4	n/a	n/a	n/a
Impairment charge	2,160	1,578	n/a	n/a	n/a
Total net specific provisions charge	n/a	n/a	1,310	1,320	1,486
General provisions (release)/charge	n/a	n/a	(206)	27	(2)
Other credit provisions	(6)	(7)	(11)		
Impairment/provision charges	2,154	1,571	1,093	1,347	1,484

(Also see chart on page 80.)

Note

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

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Table 21: Impairment/provisions charges ratios (Loan loss ratios)

	IFRS			UK GAAP	
	2006	2005	2004[(a)]	2003	2002
	%	%	%	%	%
Impairment/provisions charges as a percentage of average loans and advances for the year:					
Specific provisions charge	n/a	n/a	0.40	0.46	0.58
General provisions charge	n/a	n/a	(0.07)	0.01	
Impairment charge	0.66	0.58	n/a	n/a	n/a
Total	0.66	0.58	0.33	0.47	0.58
Amounts written off (net of recoveries)	0.61	0.50	0.40	0.48	0.43

Table 22: Analysis of allowance for impairment/provision for bad and doubtful debts

	IFRS			UK GAAP	
	2006	2005	2004[(a)]	2003	2002
	£m	£m	£m	£m	£m
Impairment allowance/Specific provisions					
United Kingdom	2,477	2,266	1,683	1,856	1,790
Other European Union	311	284	149	97	84
United States	100	130	155	121	257
Africa	417	647	70	79	60
Rest of the World	30	123	90	80	70
Specific provision balances	n/a	n/a	2,147	2,233	2,261
General provision balances	n/a	n/a	564	795	737
Allowance for impairment provision balances	3,335	3,450	2,711	3,028	2,998
Average loans and advances for the year	313,614	271,421	328,134	285,963	256,789

Table 23: Allowance for impairment/provision balance ratios

	IFRS			UK GAAP	
	2006	2005	2004[(a)]	2003	2002
	%	%	%	%	%
Allowance for impairment/provision balance at end of year as a percentage of loans and advances at end of year:					
Specific provision balances	n/a	n/a	0.62	0.77	0.86
General provision balances	n/a	n/a	0.16	0.27	0.28
Impairment balance	1.05	1.14	n/a	n/a	n/a
Total	1.05	1.14	0.78	1.04	1.14

Table 24: Movements in allowance for impairment/provisions charge for bad and doubtful debts

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m
Allowance for impairment/provision balance at beginning of year	3,450	2,637	2,946	2,998	2,716
Acquisitions and disposals	(23)	555	21	62	(11)
Unwind of discount	(98)	(76)	n/a	n/a	n/a
Exchange and other adjustments	(153)	125	(33)	(18)	(77)
Amounts written off	(2,174)	(1,587)	(1,582)	(1,474)	(1,220)
Recoveries	259	222	255	113	106
Impairment/provision charged against profit[b]	2,074	1,574	1,104	1,347	1,484
Allowance for impairment/provision balance at end of year	3,335	3,450	2,711	3,028	2,998

(Also see chart on page 81.)

Notes

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

(b) Does not reflect the impairment of available for sale assets or other credit risk provisions in 2005 and 2006.

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Table 25: Amounts written off

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m
United Kingdom	(1,746)	(1,302)	(1,280)	(1,175)	(950)
Other European Union	(74)	(56)	(63)	(54)	(31)
United States	(46)	(143)	(50)	(215)	(215)
Africa	(264)	(81)	(15)	(13)	(14)
Rest of the World	(44)	(5)	(174)	(17)	(10)
Amounts written off	(2,174)	(1,587)	(1,582)	(1,474)	(1,220)

Table 26: Recoveries

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m
United Kingdom	178	160	217	95	88
Other European Union	18	13	9	7	7
United States	22	15	14	10	9
Africa	33	16	4	1	1
Rest of the World	8	18	11		1
Recoveries	259	222	255	113	106

Table 27: Impairment allowances/provision charged against profit

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m
New and increased impairment allowance/specific provision charge:					
United Kingdom	2,253	1,763	1,358	1,373	1,210
Other European Union	182	113	131	57	33
United States	60	105	85	118	404
Africa	209	109	47	33	36
Rest of the World	18	39	134	47	36
	2,722	2,129	1,755	1,628	1,719
Reversals of impairment allowance/specific provision charge:					
United Kingdom	(195)	(221)	(120)	(146)	(81)
Other European Union	(72)	(25)	(20)	(13)	(12)
United States	(26)	(14)	(14)	(24)	(10)
Africa	(33)	(56)	(16)	(10)	(11)
Rest of the World	(63)	(17)	(20)	(2)	(13)
	(389)	(333)	(190)	(195)	(127)
Recoveries	(259)	(222)	(255)	(113)	(106)
Net impairment allowance/specific provision charge[b]	2,074	1,574	1,310	1,320	1,486
General provision (release)/charge	n/a	n/a	(206)	27	(2)

Net charge to profit	**2,074**	1,574	1,104	1,347	1,484

Notes

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

(b) Does not reflect the impairment of available for sale assets or other credit risk provisions in 2005 and 2006.

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Table 28: Total impairment/specific provision charges for bad and doubtful debts by industry

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m
United Kingdom:					
Financial services	64	22	(1)	13	1
Agriculture, forestry and fishing	5	9		(3)	(1)
Manufacturing	1	120	28	79	80
Construction	17	14	10	(23)	41
Property	15	18	(42)	(3)	8
Energy and water	(7)	1	3	13	22
Wholesale and retail distribution and leisure	88	39	66	38	37
Transport	19	(27)	(19)	100	7
Postal and communication	15	3	(1)	1	16
Business and other services	133	45	64	76	62
Home loans	71	(1)	17	9	4
Other personal	1,459	1,136	894	757	748
Overseas customers[b]				66	13
Finance lease receivables		3	2	9	3
	1,880	1,382	1,021	1,132	1,041
Overseas	194	192	289	188	445
Impairment/specific provision charges[c]	2,074	1,574	1,310	1,320	1,486

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

The industry classifications in Tables 28, 29 and 30 have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the parent s predominant business may be in a different industry.

Table 29: Allowance for impairment/specific provision for bad and doubtful debts by industry

	IFRS						UK GAAP			
	2006		2005		2004[a]		2003		2002	
	£m	%	£m	%	£m	%	£m	%	£m	%
United Kingdom:										

Financial services	**67**	**2.0**	26	0.8	7	0.3	12	0.5	1	
Agriculture, forestry and fishing	**17**	**0.5**	12	0.3	4	0.2	5	0.2	7	0.3
Manufacturing	**85**	**2.5**	181	5.2	37	1.7	58	2.6	98	4.3
Construction	**16**	**0.5**	13	0.4	6	0.3	7	0.3	35	1.6
Property	**26**	**0.8**	24	0.7	26	1.2	3	0.1	9	0.4
Energy and water			18	0.5	23	1.0	27	1.2	28	1.3
Wholesale and retail distribution and leisure	**81**	**2.4**	99	2.9	70	3.3	52	2.3	54	2.4
Transport	**24**	**0.7**	32	0.9	55	2.6	103	4.6	7	0.3
Postal and communication	**12**	**0.4**	2	0.1	13	0.6	15	0.7	15	0.7
Business and other services	**186**	**5.6**	102	3.0	105	4.9	121	5.4	92	4.1
Home loans	**81**	**2.4**	50	1.4	58	2.7	55	2.5	53	2.3
Other personal	**1,882**	**56.5**	1,696	49.2	1,265	58.9	1,359	60.9	1,343	59.4
Overseas customers(b)							24	1.1	39	1.7
Finance lease receivables			11	0.3	14	0.7	15	0.7	9	0.4
	2,477	**74.3**	2,266	65.7	1,683	78.4	1,856	83.1	1,790	79.2
Overseas	**858**	**25.7**	1,184	34.3	464	21.6	377	16.9	471	20.8
Total	**3,335**	**100.0**	3,450	100.0	2,147	100.0	2,233	100.0	2,261	100.0

See note under Table 28.

Notes

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

(b) Overseas customers are now classified as part of other industry segments.

(c) Does not reflect the impairment of available for sale assets or other credit risk provisions in 2005 and 2006.

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Table 30: Analysis of amounts written off and recovered by industry

	Amounts written off for the year					Recoveries of amounts previously written off				
	IFRS			UK GAAP		IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002	2006	2005	2004[a]	2003	2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom:										
Financial services	13	2	7	14	2		1	3	12	
Agriculture, forestry and fishing	8	3	2		4	1		1	1	2
Manufacturing	73	47	79	126	72	21	11	30	8	22
Construction	17	15	13	19	15	2	1	2	14	3
Property	23	4	2	5	10	6	1	69	1	2
Energy and water	1	22	9	15	4	2		2		1
Wholesale and retail distribution and leisure	120	85	55	45	53	14	25	7	5	11
Transport	11	29	44	5	7	1	10	15	1	1
Postal and communication	5	15	2	1	2			1		
Business and other services	124	83	96	58	65	17	14	16	11	13
Home loans	34	2	19	11	11	11	9	5	3	1
Other personal	1,317	992	948	790	692	103	87	65	38	31
Overseas customers[b]				82	9					
Finance lease receivables		3	4	4	4		1	1	1	1
	1,746	1,302	1,280	1,175	950	178	160	217	95	88
Overseas	428	285	302	299	270	81	62	38	18	18
Total	2,174	1,587	1,582	1,474	1,220	259	222	255	113	106

See note under Table 28.

Table 31: Total impairment allowance/(provision) coverage of non-performing loans

	IFRS			UK GAAP	
	2006	2005	2004[a]	2003	2002
	%	%	%	%	%
United Kingdom	64.2	64.6	68.1	74.2	71.2
Other European Union	65.1	70.1	60.9	71.4	61.8
United States	64.9	52.8	57.0	39.2	43.7
Africa	73.2	74.3	68.4	54.5	48.4
Rest of the World	100.0	68.7	71.9	94.1	47.3
Total coverage of non-performing loans	65.6	66.2	66.9	71.5	65.9

(Also see chart on page 79.)

Table 32: Total impairment allowance/(provision) coverage of potential credit risk lending (NPLs and PPLs)

		IFRS		UK GAAP	
	2006	2005	2004[a]	2003	2002
	%	%	%	%	%
United Kingdom	**57.3**	54.6	56.5	57.7	57.2
Other European Union	**61.0**	65.9	55.6	65.0	61.8
United States	**57.1**	50.4	52.3	23.4	33.0
Africa	**51.5**	57.8	43.5	39.9	32.1
Rest of the World	**91.0**	67.6	65.9	90.9	45.5
Total coverage of potential credit risk lending	**57.0**	56.2	56.0	54.6	52.8

(Also see chart on page 79.)

Notes

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

(c) Does not reflect the impairment of available for sale assets or other credit risk provisions in 2005 and 2006.

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Critical accounting estimates

The Group s accounting policies are set out on pages 147 to 156. Certain of these policies, as well as estimates made by management, are considered to be important to an understanding of the Group s financial condition since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. The following accounting policies include estimates which are particularly sensitive in terms of judgements and the extent to which estimates are used. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has discussed the accounting policies and critical accounting estimates with the Board Accounts Committee.

Fair value of financial instruments

Some of the Bank s financial instruments are carried at fair value through profit or loss, including derivatives held for trading or risk management purposes. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices.

The effect of changing these assumptions for those financial instruments for which the fair values were measured using valuation techniques that are determined in full or in part on assumptions that are not supported by observable market prices to a range of reasonably possible alternative assumptions, would be to provide a range of £123m (2005: £87m) lower to £139m (2005: £121m) higher than the fair values recognised in the financial statements. The fair value of financial instruments is provided in Note 58 to the accounts.

Allowances for loan impairment

Allowances for loan impairment represent management s estimate of the losses incurred in the loan portfolios as at the balance sheet date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the consolidated income statement as part of the impairment charge.

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. The models are updated from time to time. However, experience suggests that the models are reliable and stable, stemming from the very large numbers of accounts from which the model building information is drawn. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these portfolios is £1,809m (2005: £1,254m) and amounts to 87% (2005: 80%) of the total impairment charge in 2006.

For larger accounts, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects for the customer, the realisable value of collateral, the Group s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan s original effective interest rate), and its carrying amount. Subjective judgements are made in this process. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken, case by case. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment charge reflected in the financial statements in relation to larger accounts is £265m (2005: £320m) or 13% (2005: 20%) of the total impairment charge in 2006. Further information on impairment allowances is set out on pages 79 to 81.

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Goodwill

Management have to consider at least annually whether the current carrying value of goodwill is impaired. The first step of the impairment review process requires the identification of independent operating units, by dividing the Group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent operating units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the operating unit, including the allocated goodwill, is compared to its fair value to determine whether any impairment exists. If the fair value of an operating unit is less than its carrying value, goodwill will be impaired. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competitive activity, regulatory change). In the absence of readily available market price data this calculation is based upon discounting expected pre-tax cash flows at a risk adjusted interest rate appropriate to the operating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows naturally reflect management s view of future performance. The most significant amounts of goodwill relate to the Absa and Woolwich acquisitions. The goodwill impairment testing performed in 2006 indicated that none of the goodwill was impaired.

Intangible assets

Intangible assets that derive their value from contractual customer relationships or that can be separated and sold and have a finite useful life are amortised over their estimated useful life. Determining the estimated useful life of these finite life intangible assets requires an analysis of circumstances, and judgement by the Bank s management. At each balance sheet date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the assets or the cash-generating unit s net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arms-length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset s continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The most significant amounts of intangible assets relate to the Absa acquisition.

Retirement benefit obligations

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

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

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

The Group s IAS 19 pension deficit across all pension and post-retirement schemes as at 31st December 2006 was £817m (2005: £2,879m). This comprises net recognised liabilities of £1,719m (2005: £1,737m) and unrecognised actuarial gains of £902m (2005: losses of £1,142m). The net recognised liabilities comprises retirement benefit liabilities of £1,807m (2005: £1,823m) relating to schemes that are in deficit, and assets of £88m (2005: £86m) relating to schemes that are in surplus. The Group s IAS 19 pension deficit in respect of the main UK scheme as at 31st December 2006 was £0.5bn (2005: £2.5bn). The estimated actuarial funding position of the main UK pension scheme as at 31st December 2006, estimated from the triennial valuation in 2004, was a surplus of £1.3bn (2005: £0.9bn). Cash contributions to the main UK scheme were £351m (2005: £354m).

Further information on retirement benefit obligations, including assumptions is set out in Note 35 to the accounts.

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2 Governance

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Board and Executive Committee

Marcus Agius **Chairman** *Age 60* Marcus joined the Board on 1st September 2006 and succeeded Matthew Barrett as Chairman from 1st January 2007. Marcus is the senior non-executive Director of the BBC and was Chairman of Lazard in London and a Deputy Chairman of Lazard LLC until 31st December 2006. He was formerly Chairman of BAA PLC, a position he held from 2002 until 20th December 2006. Marcus is Trustee to the Board of the Royal Botanic Gardens, Kew and Chairman of The Foundation and Friends of the Royal Botanic Gardens, Kew. From 1st January 2007, Marcus became Chairman of the Board Corporate Governance and Nominations Committee and a member of the Board HR and Remuneration Committee. **1**

Sir Richard Broadbent **Senior Independent Director** *Age 53* Sir Richard joined the Board in September 2003. He was appointed Senior Independent Director on 1st September 2004. Sir Richard is Chairman of Arriva plc and was previously the Executive Chairman of HM Customs and Excise from 2000 to 2003. He was formerly a member of the Group Executive Committee of Schroders plc and a non-executive Director of the Securities Institute. Sir Richard is Chairman of the Board Risk Committee and, from 1st January 2007, Chairman of the Board HR and Remuneration Committee. He is also a member of the Board Corporate Governance and Nominations Committee. **2**

Leigh Clifford **Non-executive Director** *Age 59* Leigh joined the Board on 1st October 2004. Leigh has been a Director of Rio Tinto plc since 1994 and Rio Tinto Limited since 1995 and was appointed Chief Executive of the Rio Tinto Group in 2000. He held various roles at Rio Tinto since joining in 1970, including Managing Director of Rio Tinto Limited and Chief Executive of the Energy Group. He was a member of the Coal Industry Advisory Board of the International Energy Agency for a number of years and its Chairman from 1998 to 2000. He was formerly a Director of Freeport-McMoran Copper & Gold Inc. He is a member of the Board HR and Remuneration Committee. **3**

Fulvio Conti **Non-executive Director** *Age 59* Fulvio joined the Board on 1st April 2006. Fulvio is Chief Executive Officer and General Manager of Enel SpA, the Italian energy group, a position he has held since May 2005. He became Chief Financial Officer of Enel SpA in 1999. Fulvio was formerly Chief Financial Officer and General Manager of Telecom Italia and between 1996 and 1998 was General Manager and Chief Financial Officer of Ferrovie dello Stato, the Italian national railway. From 1991 to 1993 he was head of the accounting, finance, and control department of Montecatini and was subsequently in charge of finance at Montedison-Compart, overseeing the financial restructuring of the group. Fulvio is a member of the Board Audit Committee. **4**

Dr Danie Cronjé **Non-executive Director** *Age 60* Danie joined the Board on 1st September 2005 following the acquisition by Barclays of a majority stake in Absa, where he is Chairman. Danie joined Absa in 1987 and was formerly Deputy Chief Executive and Group Chief Executive until 1997. He joined Volkskas in 1975 and held various positions in Volkskas Merchant Bank and Volkskas Group. Danie will retire as Chairman of Absa on 1st July 2007 and will leave the Absa Board on 31st July 2007. He is a member of the Board Risk Committee. **5**

Professor Dame Sandra Dawson **Non-executive Director** *Age 60* Sandra joined the Board in March 2003. She is currently KPMG Professor of Management Studies at the University of Cambridge and has been Master of Sidney Sussex College, Cambridge since 1999. She is also a Trustee of Oxfam and a member of the UK-India Round Table. Until September 2006, Sandra was Director of the Judge Business School at Cambridge, a position she had held since 1995. Sandra has held a range of non-executive posts in organisations including Rand Europe (UK), JP Morgan Fleming Claverhouse Investment Trust, and Riverside Mental Health Trust. She was also a member of the Senior Salaries Review Board. She is a member of the Board Audit Committee. **6**

Sir Andrew Likierman **Non-executive Director** *Age 63* Sir Andrew joined the Board on 1st September 2004. He was previously Managing Director, Financial Management, Reporting and Audit and Head of the Government Accountancy Service at HM Treasury. He is Professor of Management Practice in Accounting at the London Business School and a non-executive Director of the Bank of England. Sir Andrew was formerly a non-executive Director and Chairman of MORI Group Limited. He is also a non-executive Director and Vice Chairman of the Tavistock and Portman NHS Trust and non-executive Chairman of Applied Intellectual Capital plc. Sir Andrew is a member of the Board Audit and Board Risk Committees. **7**

Sir Nigel Rudd, DL

Deputy Chairman

Non-executive Director *Age 60* Sir Nigel joined the Board in February 1996 and was appointed Deputy Chairman on 1st September 2004. He is non-executive Chairman of Pendragon PLC and Alliance Boots PLC and a non-executive Director of BAe Systems PLC and Sappi Limited. He is a member of the Board Corporate Governance and Nominations Committee and, until 31st December 2006, was Chairman of the Board HR and Remuneration Committee. Sir Nigel also chairs the Group s Brand and Reputation Committee**8**

Stephen Russell **Non-executive Director** *Age 61* Stephen joined the Board in October 2000 on completion of the acquisition of Woolwich plc. Stephen was Chief Executive of Boots Group PLC from 2000 until 2003, having worked for Boots since 1967. Stephen is a trustee of St. John s Ambulance and Tommy s the Baby Charity and is on the Council of Nottingham University. Stephen is Chairman of the Board Audit Committee and is a member of the Board Risk and Board Corporate Governance and Nominations Committees. **9**

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Sir John Sunderland **Non-executive Director** *Age 61* Sir John joined the Board on 1st June 2005. He has been Chairman of Cadbury Schweppes PLC since May 2003. Sir John joined Cadbury Schweppes in 1968 and was appointed Chief Executive in September 1996. He is Deputy President of the CBI, having retired as President on 31st December 2006, and is a former President of both ISBA (the Incorporated Society of British Advertisers) and the Food and Drink Federation. Sir John is a Director of the Financial Reporting Council, an Adviser to CVC Capital Partners, an Advisory Board Member of Ian Jones & Partners and of Marakon Associates, and an Association Member of BUPA. He is a member of the Board HR and Remuneration and Board Corporate Governance and Nominations Committees. **10**

John Varley

Group Chief Executive

Executive Director and member of Executive Committee *Age 50* John was appointed as Group Chief Executive on 1st September 2004, prior to which he had been Group Deputy Chief Executive from 1st January 2004. He held the position of Group Finance Director from 2000 until the end of 2003. John joined the Executive Committee in September 1996 and was appointed to the Board in June 1998. He was Chief Executive of Retail Financial Services from 1998 to 2000 and Chairman of the Asset Management Division from 1995 to 1998. He is Chairman of Business Action on Homelessness, President of the Employers Forum on Disability and a member of the International Advisory Panel of the Monetary Authority of Singapore.

John is also a non-executive Director of AstraZeneca PLC and a Director of Ascot Racecourse. **11**

Robert E Diamond Jr

President, Barclays PLC and CEO, Investment Banking and Investment Management

Executive Director and member of Executive Committee *Age 55* Bob was appointed President of Barclays PLC and became an executive Director on 1st June 2005. He is responsible for the Investment Banking and Investment Management business for the

Group. He has been a member of the Executive Committee since September 1997. He joined Barclays in July 1996 from CSFB where he was Vice-Chairman and Head of Global Fixed Income and Foreign Exchange. **12**

Gary Hoffman

Group Vice-Chairman

Executive Director *Age 46* Gary was appointed as Group Vice-Chairman in July 2006. He was formerly Chairman of UK Banking and of Barclaycard and prior to that was Chief Executive of Barclaycard. He joined the Board on 1st January 2004. As Group Vice-Chairman, Gary is accountable on the Board for a range of responsibilities including Corporate Responsibility, Public Policy, Equality and Diversity, leading the Group s response to the FSA s Treating Customers Fairly initiative, chairing the Group s Governance and Control Committee and franchise health with customers, employees and communities. Gary joined the Group in 1982. Gary is also a non-executive Director of Trinity Mirror PLC. **13**

Naguib Kheraj

Group Finance Director

Executive Director and member of Executive Committee *Age 42* Naguib was appointed as Group Finance Director and joined the Board on 1st January 2004. He had previously held the positions of Chief Executive of Barclays Private Clients, Deputy Chairman of Barclays Global Investors, Global Head of Investment Banking and Global Chief Operating Officer at Barclays Capital. He joined the Executive Committee in March 2003. Before joining Barclays, he was a Managing Director and held the post of Chief Financial Officer for Europe at Salomon Brothers. Naguib is also a non-executive Director of Absa Group Limited. Naguib will leave the Board on 31st March 2007 and will be succeeded by Chris Lucas. **14**

Christopher Lucas

Group Finance Director (from 1st April 2007)

Executive Director and member of Executive Committee from 1st April 2007 *Age 46* Chris will join the Group and the Board from 1st April 2007 and will succeed Naguib

Kheraj as Group Finance Director. Chris joins Barclays from PricewaterhouseCoopers, where he was UK Head of Financial Services and Global Head of Banking and Capital Markets. He was Global Relationship Partner for Barclays for the 1999-2004 financial years and subsequently held similar roles for other global financial services organisations. Chris has worked across financial services for most of his career, including three years in New York as Head of the US Banking Audit Practice of PricewaterhouseCoopers. **15**

Frederik (Frits) Seegers

Chief Executive, Global Retail and Commercial Banking

Executive Director and member of Executive Committee *Age 48* Frits was appointed Chief Executive of Global Retail and Commercial Banking and became an executive Director on 10th July 2006. He is responsible for all Barclays retail and commercial banking operations globally, including UK Banking (Retail and Business), International Retail and Commercial Banking and Barclaycard. He is also a non-executive Director of Absa Group Limited. Frits joined the Board from Citigroup, where he previously held a number of senior positions, most recently CEO Global Consumer Group with a remit covering all retail operations in Europe, Middle East and Africa. He was also a member of the Citigroup Operating Committee and the Citigroup Management Committee. **16**

Paul Idzik

Chief Operating Officer

Member of Executive Committee *Age 46* Paul joined the Executive Committee and became Chief Operating Officer in November 2004. He is also Chairman of the Group Operating Committee. Paul was formerly Chief Operating Officer of Barclays Capital. He joined Barclays Capital in August 1999 following a career with Booz Allen & Hamilton, where he was a partner and senior member of the Financial Institutions Practice. **17**

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Directors report

Report of the Directors

Profit Attributable

The profit attributable to equity shareholders of Barclays PLC for the year amounted to £4,571m, compared with £3,447m in 2005.

Dividends

The final dividends for the year ended 31st December 2006 of 20.5p per ordinary share of 25p each and 10p per staff share of £1 each have been agreed by the Directors. The final dividends will be paid on 27th April 2007 in respect of the ordinary shares registered at the close of business on 9th March 2007 and in respect of the staff shares so registered on 31st December 2006. With the interim dividends of 10.5p per ordinary share and of 10p per staff share that were paid on 2nd October 2006, the total distribution for 2006 is 31p (2005: 26.6p) per ordinary share and 20p (2005: 20p) per staff share. The dividends for the year absorb a total of £1,973m (2005: £1,687m).

Dividend Reinvestment Plan

Ordinary shareholders may have their dividends reinvested in Barclays PLC ordinary shares by participating in the Dividend Reinvestment Plan. The plan is available to all ordinary shareholders provided that they do not live in, and are not subject to the jurisdiction of, any country where their participation in the plan would require Barclays or The Plan Administrator to take action to comply with local government or regulatory procedures or any similar formalities. Any shareholder wishing to obtain details of the plan and a mandate form should contact The Plan Administrator to Barclays at The Causeway, Worthing, BN99 6DA. Those wishing to participate for the first time in the plan should send their completed mandate form to The Plan Administrator so as to be received by 4th April 2007 for it to be applicable to the payment of the final dividend on 27th April 2007. Existing participants should take no action unless they wish to alter their current mandate instructions, in which case they should contact The Plan Administrator.

Share Capital

The Company did not repurchase any shares during the year. As at 27th February 2007 (the latest practicable date for inclusion in this report), the Company had an unexpired authority to repurchase shares up to a maximum of 968.6 million ordinary shares.

The issued ordinary share capital was increased by 45.1million ordinary shares during the year as a result of the exercise of options under the Sharesave and Executive Share Option Schemes. At 31st December 2006 the issued ordinary share capital totalled 6,534,698,021 shares.

Substantial Shareholdings

Until 19th January 2007, persons with notifiable interests in the Company s shares were required to notify the Company of such interests under sections 198 to 208 of the Companies Act 1985. As at 19th January 2007, the Company had been notified of the following notifiable interest in its shares:

Legal & General Group plc	3.59%

On 20th January 2007 the Companies Act 1985 provisions in respect of substantial shareholdings were repealed and the Disclosure and Transparency Rules of the FSA came into force.

As at 27th February 2007, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the FSA of the following holding of voting rights in its shares[(a)]:

Legal & General Group plc	3.70%.

This substantial shareholder does not have different voting rights from those of our other shareholders.

Board Membership

The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical and biographical details of the Board members are set out on pages 108 and 109. Frits Seegers was appointed as an executive Director with effect from 10th July 2006. Fulvio Conti and Marcus Agius were appointed as non-executive Directors with effect from 1st April 2006 and 1st September 2006 respectively. Sir David Arculus retired from the Board on 27th April 2006 and Robert Steel retired from the Board on 11th October 2006. Matthew Barrett and David Roberts left the Board on 31st December 2006.

Chris Lucas will join the Board as Group Finance Director on 1st April 2007 and Naguib Kheraj will leave the Board on 31st March 2007.

Retirement and Re-election of Directors

In accordance with its Articles of Association, one-third (rounded down) of the Directors of Barclays PLC are required to retire by rotation at each Annual General Meeting (AGM), together with Directors appointed by the Board since the last AGM. The retiring Directors are eligible to stand for re-election. In addition, under the UK Combined Code on Corporate Governance (the Code), every Director should seek re-election by shareholders at least every three years.

The Directors retiring by rotation at the 2007 AGM and offering themselves for re-election are Stephen Russell, Leigh Clifford, Sir Andrew Likierman and John Varley. Sir Nigel Rudd retires annually in accordance with the Code and is offering himself for re-election. In addition, Frits Seegers and Marcus Agius, who were appointed as Directors since the last AGM, will be offering themselves for re-election at the 2007 AGM. Chris Lucas, who will join the Board on 1st April 2007, will also offer himself for re-election at the 2007 AGM.

Directors Interests

Directors interests in the shares of the Group on 31st December 2006, according to the register maintained under the Companies Act 1985, are shown on page 136. The register is available for inspection during business hours at the Group s head office and will be available for inspection at the 2007 AGM.

Note

(a) In addition, on 19th March 2007, the Company was notified that Lloyds TSB Group plc held voting rights over 343,955,194 of its shares, amounting to 5.26% of the total voting rights.

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Directors Emoluments

Information on emoluments of Directors of Barclays PLC, in accordance with the Companies Act 1985 and the Listing Rules of the United Kingdom Listing Authority, is given in the Remuneration report on pages 121 to 136 and in Note 46 to the accounts.

Directors Indemnities

The Board believes that it is in the best interests of the Group to attract and retain the services of the most able and experienced Directors by offering competitive terms of engagement, including the granting of indemnities on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions (as defined by section 309B of the Companies Act 1985) were accordingly in force during the course of the financial year ended 31st December 2006 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Activities

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

Community Involvement

The total commitment for 2006 was £46.5m (2005: £39.1m).

The Group committed £39.6m in support of the community in the UK (2005: £35.3m) and £6.9m was committed in international support (2005: £3.8m). The UK commitment includes £35.2m of charitable donations (2005: £16.7m).

Barclays is a member of the Percent Club a group of companies that have undertaken to ensure that donations to the community over time amount to at least 1% of their UK pre-tax profit.

Barclays has an extensive community programme covering many countries around the world. The Group provides funding and support to over 8,279 charities and voluntary organisations, ranging from small, local charities, like Passage (UK), to international organisations like Unicef. We also have a very successful employee programme which in 2006 saw more than 33,000 employees and pensioners worldwide taking part in Barclays supported volunteering, giving and fundraising activities. Further information on our community involvement is given on pages 139 and 142.

Political Donations

The Group did not give any money for political purposes in the UK nor did it make any donations to EU political organisations or incur any EU political expenditure during the year. Absa Group Limited, in which the Group acquired a majority stake in 2005, made donations totalling £212,729 in 2006 (2005: £224,400) in accordance with its policy of making political donations to the major South African political parties to support the development of democracy in South Africa. The Group made no other political donations in 2006.

At the AGM in 2006, shareholders gave a limited authority for Barclays PLC and Barclays Bank PLC to make political donations and incur political expenditure, within an agreed limit, as a precautionary measure in light of the wide definitions in The Political Parties, Elections and Referendums Act 2000. This was a renewal of an authority given by shareholders in 2002. These authorities, which have not been used, expire on 26th April 2007. The risk of inadvertently breaching The Political Parties, Elections and Referendums Act 2000 remains and the Directors consider it prudent to seek a renewal of the authority given by shareholders for Barclays Bank PLC. A resolution to authorise Barclays Bank PLC to make political donations and incur political expenditure up to a maximum aggregate sum of £125,000 is therefore being proposed at the Barclays PLC 2007 AGM.

Employee Involvement

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

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

Barclays is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. An annual (bi-annual in the case of BGI) Employee Opinion Survey is undertaken with results being reported to the Board HR and Remuneration Committee and all employees. Roadshows and employee forums also take place.

In addition, Barclays undertakes regular and formal Group, business unit and project specific consultations with Amicus, our recognised union in the UK.

Equality and Diversity

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

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

Health and Safety

Barclays is committed to ensuring the health, safety and welfare of our employees and, so far as is reasonably practicable, to providing and maintaining safe working conditions. Barclays regards legislative compliance as a minimum and where appropriate we seek to implement higher standards. Barclays also recognises its responsibilities towards all persons on Barclays premises, such as contractors, visitors and members of the public, and ensures, so far as is reasonably practicable, that they are not exposed to risks to their health and safety.

In 2006 Barclays reviewed its Statement of Commitment which applies in all business areas in which Barclays has operational control. In this statement, Barclays commits to:

- demonstrate personal leadership that is consistent with this vision;
- provide the appropriate resources to fulfil this commitment;
- carry out risk assessments and take appropriate actions to mitigate risk;
- consult our employees on matters affecting their Health and Safety;
- ensure that appropriate information, instruction, training and supervision are provided;
- appoint competent persons to provide specialist advice; and
- review Barclays Health and Safety Group Process, and the Statement of Commitment, at regular intervals.

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Directors report

Barclays monitors its health and safety performance using a variety of measurements on a monthly basis and the Board HR and Remuneration Committee receives annual reports on health and safety performance from the Human Resources Director. As part of its Partnership Agreement with trade union Amicus in the UK, Barclays funds seven full time Health and Safety Representatives.

Creditors Payment Policy

Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, promptly. Normal policy is to pay all small business purchases within 30 days. It is the Group s practice to agree terms with suppliers when entering into contracts. We negotiate with suppliers on an individual basis and meet our obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Paragraph 12(3) of Schedule 7 of the Companies Act 1985 requires disclosure of trade creditor payment days. Disclosure is required by the Company, rather than the Group. The Group s principal trading subsidiary in the UK is Barclays Bank PLC, the accounts for which are prepared in accordance with International Financial Reporting Standards. The components for the trade creditor calculation are not easily identified. However, by identifying as closely as possible the components that would be required if Schedule 4 of the Companies Act applied, the trade creditor payment days for Barclays Bank PLC for 2006 were 28 days (2005: 35 days). This is an arithmetical calculation and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

Financial Instruments

The Group s financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out in pages 63 to 90 under the headings, Barclays approach to risk management , Credit Risk Management , Market risk management , Capital and liquidity risk management and Derivatives and in Note 14 and Notes 52 to 57 to the accounts.

Events after the Balance Sheet Date

On 19th January 2007 Barclays announced that it entered into an agreement to purchase EquiFirst Corporation, the non-prime mortgage origination business of Regions Financial Corporation, for a consideration of approximately US$225m. Completion, which is subject to receipt of the required licences and applicable regulatory approval, as well as a post-closing adjustment based on EquiFirst s balance sheet at the actual completion date, is expected in the first half of 2007.

On 8th February 2007 Barclays completed the acquisition of Indexchange Investment AG from Bayerische Hypo-und Vereinsbank for a consideration of approximately 240m.

The Auditors

The Board Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Group, including monitoring the Group s use of the auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found on pages 117 and 118 and Note 9 to the accounts. Having reviewed the independence and effectiveness of the external auditors, the Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2007 AGM.

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

The Annual General Meeting

The Barclays PLC AGM will be held at The Queen Elizabeth II Conference Centre on Thursday 26th April 2007. The Notice of Meeting is included in a separate document sent to shareholders with this report. A summary of the resolutions being proposed at the 2007 AGM is set out below:

Ordinary Resolutions

- To receive the Directors and Auditors Reports and the Audited Accounts for the year ended 31st December 2006.
- To approve the Remuneration report for the year ended 31st December 2006.
- To re-elect the following Directors:

  Marcus Agius;

  Frits Seegers;

  Chris Lucas;

  Stephen Russell;

  Leigh Clifford;

  Sir Andrew Likierman;

  John Varley; and

  Sir Nigel Rudd.
- To reappoint PricewaterhouseCoopers LLP as auditors of the Company.
- To authorise the Directors to set the remuneration of the auditors.
- To authorise Barclays Bank PLC to make political donations.
- To renew the authority given to the Directors to allot securities.

Special Resolutions

- To renew the authority given to the Directors to allot securities for cash other than on a pro-rata basis to shareholders and to sell treasury shares.
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