Chapter 6

The Results

Barclays PLC Annual Report 2001

Detailed contents page

Please note this is a section from the full Annual Report the contents of which are below.

Registered No. 48839

Profit / (loss) before tax

	2001 £m	2000 £m	1999 £m
Personal Financial Services	498	423	376
Woolwich	505	230	141
Barclays Private Clients	620	645	421
Barclaycard	555	464	484
Business Banking	1,152	1,102	1,011
Barclays Africa	133	110	103
Barclays Capital	685	575	425
Barclays Global Investors	71	59	45
Other operations	(16)	17	(27)
Head office functions	(69)	(47)	(29)
Restructuring charge	(171)	(232)	(344)
Woolwich integration costs	(89)	(7)	–
Woolwich fair value adjustments	(33)	(6)	–
Goodwill amortisation	(229)	(51)	(13)
Operating profit (a)	3,612	3,282	2,593
Exceptional items	(4)	214	(138)
Profit before tax	3,608	3,496	2,455

Note
(a) including loss from joint ventures and associated undertakings of £9m (2000 £8m, 1999 £14m).

Total assets and weighted risk assets

	Total assets			Weighted risk assets		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Personal Financial Services	7,244	6,562	6,121	6,097	5,598	5,319
Woolwich	57,630	55,243	18,426	30,142	28,620	9,494
Barclays Private Clients	13,736	13,352	11,750	9,167	8,390	6,719
Barclaycard	9,342	9,805	8,796	9,405	9,623	8,663
Business Banking	44,243	41,364	32,347	46,390	44,017	39,118
Barclays Africa	2,756	2,291	2,161	1,943	1,661	1,611
Barclays Capital	202,030	168,894	160,312	52,675	45,946	42,183
Barclays Global Investors	265	259	232	548	653	456
Other operations and head office functions	7,142	5,440	6,425	2,506	2,532	2,315
Goodwill	4,091	4,269	183	–	–	–
Retail life-fund assets	8,170	8,711	8,040	–	–	–
	356,649	316,190	254,793	158,873	147,040	115,878

Summary statutory profit and loss account

	2001 £m	2000 £m	1999 £m
Operating income	11,325	9,598	8,373
Operating expenses	(6,554)	(5,492)	(5,144)
Operating profit before provisions	4,771	4,106	3,229
Provisions for bad and doubtful debts	(1,149)	(817)	(621)
Provisions for contingent liabilities and commitments	(1)	1	(1)
Operating profit	3,621	3,290	2,607
Loss from joint ventures	(1)	(1)	(1)
Loss from associated undertakings	(8)	(7)	(13)
Loss on sale or restructuring of BZW	–	–	(30)
(Loss)/profit on disposal of other Group undertakings	(4)	214	(108)
Profit on ordinary activities before tax	3,608	3,496	2,455

Further analysis of profit and loss account and pro forma disclosure

	2001 £m	2000 Pro forma £m	2000 £m	1999 £m
Interest receivable	13,513	13,546	11,799	9,320
Interest payable	(7,374)	(8,006)	(6,639)	(4,696)
Profit on repurchase of loan capital	–	2	2	3
Net interest income	6,139	5,542	5,162	4,627
Net fees and commissions receivable	3,758	3,597	3,369	2,932
Dealing profits	1,011	677	677	556
Other operating income	452	432	397	258
Operating income	11,360	10,248	9,605	8,373
Administration expenses – staff costs	(3,578)	(3,189)	(3,047)	(2,865)
Administration expenses – other	(2,181)	(2,135)	(1,900)	(1,655)
Depreciation and amortisation	(308)	(294)	(256)	(267)
Operating expenses	(6,067)	(5,618)	(5,203)	(4,787)
	5,293	4,630	4,402	3,586
Provisions for bad and doubtful debts	(1,149)	(850)	(817)	(621)
Provisions for contingent liabilities and commitments	(1)	1	1	(1)
Loss from joint ventures and associated undertakings	(9)	(10)	(8)	(14)
Operating profit	4,134	3,771	3,578	2,950
Restructuring charge	(171)	(232)	(232)	(344)
Woolwich integration costs	(89)	(7)	(7)	–
Woolwich fair value adjustments	(33)	(6)	(6)	–
Goodwill amortisation	(229)	(219)	(51)	(13)
Exceptional items	(4)	–	214	(138)
Profit on ordinary activities before tax	3,608	3,307	3,496	2,455
Earnings per ordinary share before restructuring charge integration costs, Woolwich fair value adjustments, goodwill amortisation and exceptional items	174.1p	158.1p	164.0p	143.6p
Post-tax return on average shareholders' funds (on a consistent basis with earnings per share above)	20.2%	21.2%	25.3%	25.1%

The above presentation of operating profit for the years ended 31st December 2001, 2000 and 1999 differs from the statutory operating profit shown on page 112 in that it is shown before charging for costs directly associated with the integration of Woolwich plc, Woolwich fair value adjustments, goodwill amortisation and the restructuring charge relating to staff displacement and related costs. The pro forma 2000 comparatives are based on the assumption that the acquisition of Woolwich plc and the disposal of certain other businesses took place on 1st January 2000 and are provided to facilitate a like for like comparison of 2001 with 2000. Further details of the pro forma adjustments are provided on page 26.

Woolwich fair value adjustments consist of £35m net interest charge (2000 £7m) and £2m of credit to operating expenses (2000 £1m).

Introduction

The Group's operating profit increased by 10% to £3,621m (2000 £3,290m) partly reflecting the incorporation of a full year's results for Woolwich plc. The operating profit for 2001 is after accounting for a restructuring charge of £171m (2000 £232m). Earnings per share reduced by 9% to 148.2p.

Personal Financial Services achieved an 18% increase in operating profit to £498m (2000 £423m). Total income increased by 6%. Costs were held flat. Net interest income increased by 5% to £1,142m (2000 £1,092m) driven by strong growth in deposit balances and continued growth in consumer lending balances.

Operating profit on a statutory basis for the Woolwich business increased from £230m to £505m partly reflecting the incorporation of a full year's results for Woolwich plc.

Barclays Private Clients operating profit decreased by 4% to £620m (2000 £645m) largely due to significant strategic investment (which grew £62m year on year). Operating income was held at 2000 levels, despite difficult market conditions, due to the diversity of product, geography and client mix.

Barclaycard operating profit increased by 20% to £555m (2000 £464m), benefiting from increased customer recruitment and the application of Information Based Customer Management techniques, which enable pricing and proposition features to be responsive to customer needs.

Business Banking operating profit increased 5% to £1,152m (2000 £1,102m) reflecting good growth in balances. Net fees and commissions increased 6%, while operating costs were held flat.

Barclays Africa operating profit increased 21% to £133m (2000 £110m), primarily reflecting lower provisions. Costs were held at similar levels to 2000.

Barclays Capital operating profit increased 19% to £685m (2000 £575m) with both the Rates and Credit businesses performing well. Total income growth of 26% reflected increased business activity in most areas. Net interest income increased 33% and dealing profits 48%, underpinned by a 77% increase in client transaction volumes.

Barclays Global Investors operating profit increased 20% to £71m (2000 £59m) despite significantly lower stock market levels. Fees and commissions totalled £505m (2000 £435m), up 16%, assisted by strong growth in performance fees.

Total Group provisions for bad and doubtful debts rose by £332m, or 41%, to £1,149m, primarily as a result of the impact of the current deterioration in economic conditions on the corporate sector.

Non-performing lendings increased by £494m to £3,871m. Potential problem loans increased by £295m to £1,402m. Coverage of both non-performing lendings and total potential credit risk lendings fell, from 72.4% to 72.1% and 54.5% to 52.9% respectively.

Shareholders' funds increased by £1,321m due to profit retentions. Weighted risk assets increased by £12bn to £159bn. The Tier 1 ratio increased from 7.2% to 7.8% whilst the total risk asset ratio increased from 11.0% to 12.5%. Total assets increased by £40bn to £357bn, including a £33bn increase within Barclays Capital.

Analysis of results by business

The following section analyses the Group's performance within the businesses, showing selected income and expenditure information extracted from the Group's profit and loss account. As inter-business activities are included within these figures, the total income and expenditure for the businesses do not equate to the amounts reported in the Group's results.

Operating profit, where applicable, excludes Woolwich fair value adjustments, costs associated with the integration of Woolwich plc and the restructuring charge relating to staff displacement and related costs. These items are reflected in the business profit before tax. Goodwill amortisation is not reflected in the business analysis. Woolwich data is presented on a pro forma basis for 2000 based on the assumption that Woolwich plc had been acquired on 1st January 2000.

Personal Financial Services

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	1,142	1,092	1,099
Net fees and commissions	525	488	448
Other operating income	147	126	103
Operating income	1,814	1,706	1,650
Operating costs	(1,006)	(1,010)	(1,042)
Provisions for bad and doubtful debts	(310)	(273)	(232)
Operating profit	498	423	376
Restructuring costs	(13)	(51)	(123)
Integration costs	(33)	–	–
Profit before tax and exceptional items	452	372	253

Personal Financial Services achieved a strong increase in operating profit, up 18% (£75m) to £498m (2000 £423m). Operating income increased by £108m (6%) to £1,814m (2000 £1,706m), while costs were held flat at £1,006m (2000 £1,010m).

Net interest income increased by £50m (5%) to £1,142m (2000 £1,092m). This was driven by strong growth in deposit balances, and by continued growth in consumer lending balances. Average asset and liability margins for the year were both slightly reduced, reflecting the lower interest rate environment.

Average savings balances increased 11% to £12.3bn (2000 £11.1bn), ahead of market growth. New products launched during 2001, such as the Regular Savings and Base Rate Tracker Accounts, together with continued balance growth in e-savings, contributed to this strong performance. Improvements to current account products contributed to increased average current account credit balances, of 8%. The net inflow of current accounts totalled 120,000.

Average consumer lending balances increased by 7% to £4.7bn (2000 £4.4bn), below market growth, due to adopting a cautious risk assessment approach throughout the year. Asset quality has improved, with personal pricing on the Barclayloan product resulting in an increased proportion of better quality lending.

Net fees and commissions increased by £37m (8%) to £525m (2000 £488m) mainly as a result of additional current account and overdraft lending activity, and higher income from the fee-based Additions current account where the number of accounts increased by 16% to 1,219,000 (2000 1,050,000).

Other operating income increased by £21m (17%) to £147m (2000 £126m). This was predominantly due to higher levels of payment protection insurance and underwriting which benefited from improved volumes relating to consumer lending and credit card borrowing.

Operating costs were maintained at £1,006m (2000 £1,010m) notwithstanding the growth in business volumes.

Provisions rose 14% (£37m) to £310m (2000 £273m). This increase included a one-off £20m charge in respect of interest previously held in suspense. Excluding this charge, provisions rose by 6% which was below the rate of growth of consumer lending balances and reflected the benefit of the increased use of personal pricing.

Barclays Open Plan was launched in a small part of the branch network in September 2001 and had already attracted 10,000 customers by 31st December 2001.

Operating profit increased in 2000 by 13% or £47m. Increased operating income, including higher levels of payment protection insurance and underwriting, and lower operating costs, were partially offset by a volume related increase in provisions.

Woolwich

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	851	318	200
Net fees and commissions	301	77	36
Income from long-term assurance business	24	5	–
Other operating income	34	4	–
Operating income	1,210	404	236
Operating costs	(632)	(170)	(88)
Provisions for bad and doubtful debts	(76)	(4)	(7)
Profit from joint ventures	3	–	–
Operating profit	505	230	141
Restructuring costs	(3)	(4)	(7)
Integration costs	(46)	(7)	–
Fair value adjustments	(33)	(6)	–
Profit before tax and exceptional items	423	213	134

The following tabular information and subsequent commentary reflect a pro forma presentation for 2000 based on the assumption that the acquisition of Woolwich plc had taken place on 1st January 2000. Details of the basis of calculating pro forma results are set out on page 26.

Pro forma financial performance

	2001 £m	2000 £m
Net interest income	851	850
Net fees and commissions	301	306
Income from long-term assurance business	24	34
Other operating income	34	16
Operating income	1,210	1,206
Operating costs	(632)	(613)
Provisions for bad and doubtful debts	(76)	(39)
Profit/(loss) from joint ventures	3	(2)
Operating profit	505	552
Restructuring costs	(3)	(4)
Integration costs	(46)	(7)
Profit before tax and exceptional items (a)	456	541

Note
(a) Fair value adjustments are not reflected in this presentation.

Operating profit reduced by 9% to £505m (2000 £552m) primarily as a result of a reduced contribution from Barclays Mortgages, which was £62m lower than the previous year.

Net interest income was maintained at £851m (2000 £850m). The contribution from lending activities improved, benefiting from a strong second half and compensated for a reduction in retail deposit income, where margin pressure was particularly intense during the year.

Lending performance was strong with UK mortgage balances increasing 9% to £51.9bn. From April, Woolwich branded mortgages have been sold through the Barclays retail network. Gross mortgage advances increased during the year by 37% to £15.7bn, a market share of 9.8% relative to share of balances outstanding of 9%. Net lending on UK mortgages increased by 45% to £4.3bn, a market share of 7.8%, with the market share of net lending for the second half of the year in excess 8%. Consumer finance lending balances have increased 32% to £1.5bn.

Net fees and commissions were £301m (2000 £306m). This primarily reflected a good performance from the IFA operations, where income for the year increased by 17% to £89m, and from growth in fees from mortgage related activities. Income from business areas, such as unit trusts and life assurance reduced mainly as a result of stock market volatility.

Operating costs were £632m, an increase of 3%. Revenue related costs increased £19m due to increased business volumes such as mortgages and IFA sales. Business as usual costs were held at £504m (2000 £500m).

Provisions for the year increased to £76m (2000 £39m), principally reflecting growth in consumer finance lending balances. In 2000, provisions were impacted by a provision release of £8m in Barclays Mortgages in the first half of the year.

During 2001, the number of Open Plan customers increased 76%, to 960,000 (2000 544,000), with product penetration increasing slightly to 3.1 (2000 3.0) products per customer. During the course of the year an increasing number of Open Plan recruits were new to the Woolwich.

Barclays Private Clients

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	839	793	662
Net fees and commissions	576	579	550
Income from long-term assurance business	148	166	44
Other operating income	18	36	32
Operating income	1,581	1,574	1,288
Operating costs	(925)	(906)	(862)
Provisions for bad and doubtful debts	(36)	(23)	(5)
Operating profit	620	645	421
Restructuring costs	(29)	(41)	(24)
Integration costs	(9)	–	–
Profit before tax and exceptional items	582	604	397

Operating profit of Barclays Private Clients decreased by 4% to £620m (2000 £645m). This was due to significant strategic investment spend. Operating income was held at 2000 levels, despite difficult market conditions, due to the diversity of product, geography and client mix.

Net interest income increased by 6% to £839m (2000 £793m). Average lending volumes increased by 16% to £8.6bn (2000 £7.4bn) and average deposits, primarily from UK affluent clients, increased by 6% to £38bn (2000 £36bn). The benefit of increased balances was partially offset by margin compression in deposits, due to reduced interest rates.

Net fees and commissions decreased by 1% to £576m (2000 £579m) primarily due to lower fund management and brokerage fees. This was partially offset by commission income of £35m from the sale of Legal & General products. Average daily volumes in UK retail stockbroking decreased by 21% to 6,400 (2000 8,100). Barclays Stockbrokers continued to maintain its leading UK position with market share of retail stockbroking, as measured by retail client orders, remaining at 11%.

Income from long term assurance, declined by 11% to £148m (2000 £166m). Lower stock market levels in the year resulted in a £70m negative impact on income. This was partly offset by one-off benefits such as the £45m gain from the Legal & General strategic alliance.

Operating costs increased 2% to £925m (2000 £906m). This includes £31m relating to the regulated sales force and field sales managers following the Legal & General strategic alliance, whose costs were previously borne within the long term assurance fund. Excluding this, total costs reduced 1%. Cost reduction and productivity improvement outweighed inflationary and volume related pressures, resulting in a 5% decrease in business as usual costs and revenue related costs in total to £830m. Strategic investment costs increased by £62m to £95m, supporting the transformation programme.

Total customer funds, which include assets under management and customer deposits, amounted to £88bn (2000 £95bn). Assets under management fell by £7bn to £50bn primarily due to the impact of falling stock markets and the transfer of assets under management following the Legal & General strategic alliance. Despite more difficult market conditions net new funds were flat.

Within total customer funds, Barclays Private Clients has £10bn (2000 £15bn) of assets under management relating to retail life and funds businesses.

The Legal & General strategic alliance is representative of Barclays Private Clients strategy of distributing best of breed investment products to customers. The launch of stakeholder pensions commenced in April 2001. The sale through Barclays distribution channels of protection and bond products commenced in August 2001 and of unit trusts and ISAs in September 2001. Legal & General product sales for the fourth quarter of 2001 (the first full quarter that Barclays distributed the full complement of Legal & General products) increased by 18% compared with similar product sales by Barclays Life and Barclays Funds over the same period in 2000.

Barclays Private Clients includes the Barclays Caribbean operation which announced an agreement in October 2001 to combine its retail, corporate and offshore banking operations with those of Canadian Imperial Bank of Commerce (CIBC) to create FirstCaribbean International Bank™.

The unutilised amount of the redress provision in Barclays Life for customers who may have been mis-sold a personal pension is £47m at 31st December 2001 (2000 £80m). 8% of the cases originally identified for review remain to be settled.

Operating profit increased in 2000 by 53% to £645m. Higher levels of activity in the UK, continental Europe, the Caribbean and international banking contributed to the profit growth.

Barclaycard

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	820	685	656
Net fees and commissions	581	524	489
Operating income	1,401	1,209	1,145
Operating costs	(473)	(439)	(428)
Provisions for bad and doubtful debts	(370)	(304)	(233)
(Loss)/income from joint ventures	(3)	(2)	–
Operating profit	555	464	484
Restructuring costs	(8)	(4)	(11)
Profit before tax and exceptional items	547	460	473

Operating profit of Barclaycard increased by 20% to £555m (2000 £464m). The improved performance benefited from the application of Information Based Customer Management techniques, which allow pricing and proposition features to be responsive to customer needs. A greater insight into the behaviours of customers has allowed Barclaycard to develop targeted offers, which has increased the revenue per customer, whilst reducing the cost of acquisition of new business.

Net interest income increased by 20% to £820m (2000 £685m). This was mainly as a result of good growth in average UK extended credit balances which rose 9% to £6.0bn (2000 £5.5bn), and improved cardholder rate management coupled with lower interest rates. Recruitment of UK customers reached 763,000 (2000 740,000), aided by the Barclaycard Premiership sponsorship and in spite of lower balance consolidation activity.

Fees and commissions increased by 11% to £581m (2000 £524m), principally as a result of replacing UK annual account fees with fees based on account behaviour.

Operating costs increased 8% to £473m (2000 £439m). Strategic investment costs increased 31% to £77m (2000 £59m) arising from further recruitment of customers outside the UK and investment in capacity to facilitate the growing number of on line users which rose 68% during 2001. Business as usual costs increased by 2% to £383m, despite fraud losses rising by 22%.

Provisions increased by 22% to £370m (2000 £304m). This was mainly attributable to growth in lending across the UK and international businesses and the continuing high levels of recruitment during the last two years.

Barclaycard's international businesses recorded an operating loss of £19m (2000 loss £26m) reflecting the continued cost of business expansion. The improved performance was driven by a 38% rise in average extended credit balances and a 48% increase in total income. Total cards issued in continental Europe grew 7% to 1.25m during 2001.

Barclaycard's 2000 operating profit at £464m was 4% lower than 1999. Despite curbing overall cost growth to 2.5%, provisions increased by 39% reflecting the strong lending growth across the UK and international card businesses.

Business Banking

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	1,591	1,503	1,411
Net fees and commissions	833	787	770
Other operating income	(4)	(7)	(2)
Operating income	2,420	2,283	2,179
Operating costs	(1,047)	(1,055)	(1,065)
Provisions for bad and doubtful debts	(210)	(120)	(90)
(Loss)/income from associated undertakings	(11)	(6)	(13)
Operating profit	1,152	1,102	1,011
Restructuring costs	(31)	(59)	(84)
Integration costs	(1)	–	–
Profit before tax and exceptional items	1,120	1,043	927

Operating profit increased 5% (£50m) to £1,152m (2000 £1,102m).

Net interest income rose 6% to £1,591m reflecting increased lending and deposit balances partly offset by a slight reduction in the overall margin. Average customer lending balances increased 9% to £40.9bn (2000 £37.5bn) and average customer deposit balances increased 6% to £42.4bn (2000 £40bn).

Lending growth was focused towards higher quality. This was reflected in strong lending growth to large business customers and also through steady volumes of lending to medium and small business customers. The Sales Financing product range, which includes factoring and invoice discounting, saw rapid growth in turnover, up 55% as a result of investment in this area, while Barclays Asset Finance direct new business volumes were up over 20%.

UK lending margins continued to reduce, reflecting the focus of growth in higher quality lending. The overall deposit margin remained broadly unchanged.

Net fees and commissions increased 6% to £833m (2000 £787m). Lending related fees growth was driven by good activity levels in large business with a strong fee income performance from Sales Financing. UK money transmission income continued to fall, with higher volumes offset by lower fee levels as a result of strong competitive pressures. Foreign exchange related income increased strongly as a result of higher turnover.

The use of Businessmaster continues to increase with over 70% of large business customers and over 50% of medium business customers registered for the service. Businessmaster allows customers direct access to account information and provides a facility to make same day and international payments. In Small Business, over 35% of customers were registered to use the Online Banking system at the end of December 2001.

Operating costs fell 1% compared to 2000. Strategic investment costs were maintained at £98m (2000 £97m) and were focused towards the development of new customer value propositions and improving efficiency. Operating costs included the £36m (2000 £32m) total operating costs of BarclaysB2B and £9m of costs of Banco Barclays e Galicia SA which was consolidated as a subsidiary from 1st January 2001, having been previously reported as an associated undertaking.

Provisions increased, as expected, to £210m (2000 £120m) from relatively low levels in 2000. This reflected weaker economic conditions especially in the manufacturing sectors.

Business Banking operating profit in 2000 increased from 1999 by £91m or 9% to £1,102m. This was the result of a strong growth in net interest income and a 1% reduction in costs reflecting the contribution of lower head count and the sale of Dial (the contract hire business) in June 2000.

Barclays Africa

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	180	181	144
Net fees and commissions	130	126	101
Other operating income	6	7	11
Operating income	316	314	256
Operating costs	(158)	(157)	(142)
Provision for bad and doubtful debts	(25)	(47)	(11)
Operating profit	133	110	103
Restructuring costs	(7)	(16)	(12)
Profit before tax and exceptional items	126	94	91

Operating profit increased £23m (21%) to £133m (2000 £110m), primarily as a result of a £22m reduction in the net provision charge to £25m (2000 £47m).

Net interest income was at a similar level to last year. Total average customer lending balances increased 3% to £1.3bn. Total average customer deposit balances increased £67m (3%), to £2.2bn. Margins decreased due to increased competitive pressures.

Net fees and commissions increased 3% to £130m (2000 £126m) through increased activity levels following the introduction of new personal product offerings.

Operating costs increased 1% to £158m (2000 £157m) including costs to establish new branch operations in Tanzania.

Operating profit increased in 2000 by £7m (7%) to £110m. Provisions increased to £47m (1999 £11m), partly reflecting the difficult political and economic situations experienced during 2000 in Kenya and Zimbabwe.

Barclays Capital

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	682	512	473
Dealing profits	1,006	680	554
Net fees and commissions	405	474	294
Other operating income	53	39	40
Operating income	2,146	1,705	1,361
Operating costs	(1,322)	(1,064)	(868)
Provisions for bad and doubtful debts	(139)	(66)	(68)
Operating profit	685	575	425
Restructuring costs	(23)	(2)	(1)
Profit before tax and exceptional items	662	573	424

Barclays Capital continued to grow operating profits and fund significant investment during the year while improving the cost income ratio to 61.6% (2000 62.4%). The proportion of revenues derived from outside the UK continued to increase and overall has grown by 11% to 50%.

Operating profit increased 19% (£110m) to £685m (2000 £575m) with both the Rates and Credit businesses performing well. Operating income growth of 26% reflects increased volumes of transactions for customers and good market conditions.

Net interest income increased 33% to £682m (2000 £512m). The growth in net interest income was mainly in money markets, which benefited from a favourable interest rate environment, and in structured capital markets. Corporate lending continues to be tightly managed, with an overall decline in the credit portfolio of 7% to £14bn.

Dealing profits rose 48% to £1,006m (2000 £680m). The strong performance was underpinned by increased customer business, with client transaction volumes increasing by 77% and improved contributions from the US and Europe. Growth was broadly spread across a range of markets and products, with major increases in government bonds, foreign exchange, interest rate derivatives and debt capital markets.

The growth in operating profits was achieved with a 3% lower average daily value at risk (DVaR) 2001: £16.9m (2000 £17.5m). The reduction in market risk levels reflects the continued focus on risk management and the benefit of the portfolio effect which arises from conducting a broader span of activities.

Net fees and commissions fell 15% to £405m (2000 £474m) mainly due to lower financing volumes in syndicated loans. Primary bond fees increased compared to 2000 but were offset by lower primary loan fees in line with the fall in market volumes. Barclays Capital maintained its leading position in the European syndicated loan markets. Net fees and commissions include £61m (2000 £81m) internal fees for structured capital markets activities.

Operating costs rose 24% to £1,322m (2000 £1,064m) largely due to variable revenue related costs increasing in line with performance. Business as usual costs grew 7% as a result of a 16% rise in headcount and higher trading volumes.
Staff costs were maintained at 52% of total operating income less provisions (2000 50%). There was increased strategic investment costs mainly in respect of product, client coverage and distribution capabilities. The results of the expanded business include an increased proportion of variable revenue related costs giving greater flexibility for the future.

Provisions increased to £139m (2000 £66m). There was an increase in new and increased provisions in the US, primarily relating to a small number of large loans. Increased levels of releases and recoveries were also experienced in the second half of 2001.

The 2000 operating profit of £575m, compared to an operating profit of £425m in 1999, was a result of a continued strong performance across the Rates and Credit businesses despite difficult market conditions in the second half of 2000.

Barclays Global Investors

Financial performance

	2001 £m	2000 £m	1999 £m
Net interest income	5	6	9
Net fees and commissions	505	435	318
Other operating income	(1)	(1)	1
Operating income	509	440	328
Operating costs	(437)	(381)	(282)
Loss from associated undertakings	(1)	–	(1)
Operating profit before tax and exceptional items	71	59	45

Operating profit increased 20% to £71m (2000 £59m) in a year of significantly lower stock market levels. The diversity of revenue mix has sustained growth in profits during this year's economic downturn and difficult market environment.

Net fees and commissions increased £70m (16%) to £505m (2000 £435m). The increase was driven by a large increase in performance fees as a result of strong active product performance, increased securities lending revenues as a result of increases in stock lending volumes and spreads, and by higher transition fees due to increased business in client portfolio restructuring. Management fees remained at a similar level as revenues from net new sales and cross-sales were offset by the impact of significantly lower market levels.

Operating costs increased £56m (15%) to £437m (2000 £381m), primarily reflecting higher performance related staff costs.

Total assets under management fell 4% to £530bn (2000 £550bn). This was the net result of increases of £42bn attributable to net new business, £15bn due to exchange rate translation movements and a reduction of £77bn attributable to adverse market movements. Assets under management consisted of £438bn of indexed funds and £92bn under advanced active management. Included in the above is £38bn (2000 £41bn) of assets held in insurance vehicles.

During 2001 BGI launched 40 Exchange Traded Funds (ETFs) globally bringing total ETFs to 104 at 31st December 2001 with assets of £14.8bn. BGI have received awards for its web capabilities reflecting its progress in developing Internet-based client service, transaction and reporting capabilities.

Operating profit in 2000 increased by 31%, or £14m, reflecting growth in fees and commissions, up 37%. Total costs increased by 35% as a result of increases in business as usual costs, reflecting growth in business volumes, and increases in strategic investment and revenue related costs, reflecting increases in performance related remuneration.

Other operations

Financial performance

	2001 £m	2000 £m	1999 £m
Property costs	15	28	(4)
Central services	(38)	(26)	5
Management of Group capital (a)	7	15	(28)
Operating (loss)/profit	(16)	17	(27)
Restructuring costs	(52)	(44)	(77)
Loss before tax and exceptional items	(68)	(27)	(104)

Note
(a) Management of Group capital is after charging £61m (2000 £81m, 1999 £55m) internal fees for structured capital market activities arranged by Barclays Capital.

Within Property costs, the reduced property surplus in 2001 includes decreased disposal activity. The increased deficit in Central services reflects additional investment in core technology and operational infrastructure.

The decreased surplus in Management of Group capital is attributable to reduced credits arising in centrally managed transition businesses partially offset by lower internal fees.

Compared to 1999, the property costs surplus in 2000 reflected increased profit on disposal of properties and increased costs recharged to the Group businesses. The Central services deficit reflected increased investment in e-commerce and other infrastructure technology. The 2000 surplus reported in Management of Group Capital was attributable to credits arising in transition businesses that are managed centrally.

Head office functions

Financial performance

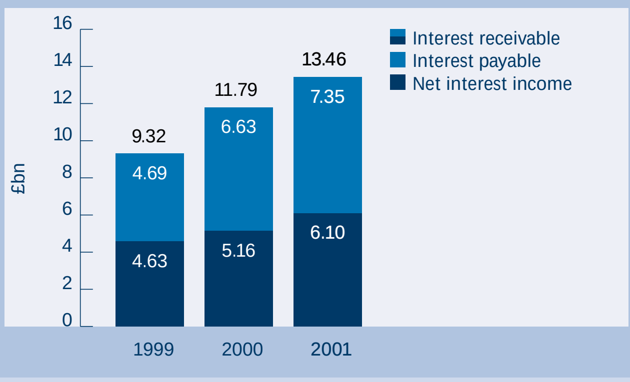
	2001 £m	2000 £m	1999 £m
Operating costs	(69)	(47)	(29)
Restructuring costs	(5)	(11)	(5)
Total	(74)	(58)	(34)

The increase in operating costs reflects expenditure on Group initiatives, the cost of which is held centrally.

Results by nature of income and expense

In the tables below, statutory basis refers to the presentation of the Group's results in the statutory profit and loss account on page 112. In order to facilitate the comparison of results in 2001 to those in 2000, pro forma comparatives have been prepared for 2000, based on the assumption that the acquisition of Woolwich plc and the disposal of certain other businesses had taken place on 1st January 2000. In addition, income and cost totals are shown excluding, where appropriate, Woolwich fair value adjustments and costs associated with the integration of Woolwich plc, the restructuring charge relating to staff displacement and related costs and goodwill amortisation to assist in the analysis of the ongoing business performance. Further details on these alternative presentations are provided on pages 26 and 35.

Net interest income



Net interest income

	2001 £m	2000 £m	1999 £m
Interest receivable	13,458	11,788	9,320
Interest payable	(7,354)	(6,635)	(4,696)
Profit on redemption/ repurchase of loan capital	–	2	3
Statutory basis	6,104	5,155	4,627
Excluding Woolwich fair value adjustments	6,139	5,162	4,627
Pro forma	6,139	5,542	N/A

Net interest income increased by 18% in 2001 to £6,104m. On a pro forma basis, net interest income increased 11% (£597m), with strong growth in Barclaycard and Barclays Capital.

Personal Financial Services net interest income increased by 5% to £1,142m. This was driven by strong growth in deposit balances and by continued growth in consumer lending balances.

On a pro forma basis, Woolwich net interest income remained stable at £851m, despite highly competitive market conditions. The contribution from lending activities improved and compensated for a reduction in retail deposit income, where margin pressure was particularly intense during the year.

Barclays Private Clients net interest income increased by 6% to £839m as average lending volumes increased by 16% and average deposits, primarily from UK affluent clients, increased by 6%. The benefit was partially offset by margin compression in deposits, due to reduced interest rates.

Barclaycard's net interest income increased by 20% to £820m. This was mainly as a result of good growth in average UK extended credit balances which rose 9%, and improved cardholder rate management coupled with lower interest rates.

Business Banking net interest income rose 6% to £1,591m reflecting increased lending and deposit balances partly offset by a slight reduction in the overall margin. Average customer lending balances increased 9%, and average customer deposit balances increased 6%.

Barclays Capital net interest income increased 33% to £682m. The growth in net interest income was mainly in money markets, which benefited from a favourable interest rate environment, and in structured capital markets.

Overall banking margins were 2.98% compared with 3.11% in 2000. The adverse impact on the margin of the acquisition of Woolwich plc was mitigated in part by the benefit of a gain on closure of a surplus hedge following the acquisition of Woolwich plc. Increased margins in Barclaycard in part offset margin pressure in Personal Financial Services, Barclays Private Clients and Business Banking.

The benefit of free funds fell 0.06% to 0.45%. The fall in short term market rates increased the contribution to the net margin from the central management of Group interest rate exposure to 0.11% from 0.05%. The overall benefit of free funds on a hedged basis was flat at 0.56% (2000 0.56%) as the increase in the effective rate of the hedge was offset by a reduction in the proportion of free funds to interest earning assets.

Compared to 1999, 2000 net interest income increased by 11% to £5,155m from £4,627m. Adjusted for the impact of the acquisition of Woolwich plc (including interest forgone on the cash element of the acquisition cost), loss of interest income arising from the share repurchases and business disposals, underlying net interest income also increased by 11%.

Prevailing average interest rates

	2001 %	2000 %	1999 %
UK:			
Barclays Bank PLC base rate	5.12	5.96	5.35
London Inter-Bank Offered Rate (LIBOR):			
three month sterling	5.04	6.10	5.54
three month eurodollar	3.78	6.47	5.37
United States prime rate	6.92	9.24	7.99

Average interest earning assets and liabilities – banking business

	2001 £m	2000 £m	1999 £m
Average interest earning assets:			
Group	205,017	166,200	136,267
Domestic	141,087	104,845	87,407
International	63,930	61,355	48,860
Average interest bearing liabilities:			
Group	182,435	147,367	118,496
Domestic	121,878	89,130	73,850
International	60,557	58,237	44,646

Yields, spreads and margins – banking business

	2001 %	2000 %	1999 %
Gross yield (a)			
Group	6.56	7.09	6.84
Domestic	7.10	7.90	7.66
International	5.38	5.71	5.38
Interest spread (b)			
Group	2.53	2.60	2.88
Domestic	3.24	3.54	3.89
International	1.01	1.01	1.10
Interest margin (c)			
Group	2.98	3.11	3.40
Domestic	3.77	4.19	4.47
International	1.24	1.25	1.47

Notes
(a) Gross yield is the interest rate earned on average interest earning assets.

(b) Interest spread is the difference between the interest rate earned on average interest earning assets and the interest rate paid on average interest bearing liabilities.

(c) Interest margin is net interest income as a percentage of average interest earning assets.

Domestic business is conducted primarily in sterling. International business is conducted primarily in foreign currencies. In addition to the business carried out by overseas branches and subsidiaries, international business is transacted in the UK by Barclays Capital, mainly with customers domiciled outside the UK.

The yields, spreads and margins shown above have been computed on this basis, which generally reflects the domicile of the borrower. They exclude profits and losses on the redemption and repurchase of loan capital and the unwinding of the discount on vacant leasehold property provisions.

The net interest income and average balances of the trading business are shown separately on the average balance sheet on pages 50 and 51.

Net fees and commissions

	2001 £m	2000 £m	1999 £m
Fees and commissions receivable	4,223	3,689	3,207
Less: fees and commissions payable	(465)	(320)	(275)
Statutory basis	3,758	3,369	2,932
Pro forma	3,758	3,597	N/A

Net fees and commissions increased by 12% to £3,758m.

On a pro forma basis, the increase was 4% with strong performances in Personal Financial Services, Barclaycard and BGI which were partially offset by reductions in Barclays Private Clients and Barclays Capital.

Personal Financial Services net fees and commissions increased by 8% to £525m mainly as a result of additional current account and overdraft lending activity, and higher income from fee-based Additions accounts.

Woolwich net fees and commissions of £301m were at a similar level to 2000, on a pro forma basis. Income from IFA operations increased by 17% to £89m, and fees were assisted by good volumes in mortgage related activities. Income from other business areas including unit trusts and life assurance reduced, mainly as a result of stock market volatility.

Barclays Private Clients net fees and commissions decreased by 1% to £576m primarily due to lower fund management and brokerage fees. Barclays Stockbrokers maintained its leading position in the UK retail market.

Barclaycard net fees and commissions increased by 11% to £581m, principally as a result of replacing UK annual account fees with fees based on account behaviour.

Business Banking net fees and commissions increased 6% to £833m. Lending related fee growth was driven by good activity levels in the large business market and by a strong fee income performance from Sales Financing. UK money transmission income fell, with higher volumes offset by lower fee levels as a result of strong competitive pressures. Foreign exchange related income increased strongly as a result of higher turnover.

In Barclays Capital, net fees and commissions fell 15% to £405m mainly due to lower financing volumes in syndicated loans. Primary bond fees increased compared to 2000 but were offset by lower primary loan fees in line with the fall in market volumes. Barclays Capital maintained its leading position in the European syndicated loan markets.

Barclays Global Investors net fees and commissions increased £70m, or 16%, to £505m. The increase was driven by a large increase in performance fees, as a result of strong active product performance, increased securities lending revenues, and higher transition fees due to increased business in client portfolio restructuring. Management fees remained at a similar level, as revenues from net new client sales and cross-sales were offset by the impact of significantly lower market levels.

Personal Financial Services, Barclays Private Clients and Business Banking fees and commissions include £129m (2000 £120m) in aggregate in respect of foreign exchange income on customer transactions with Barclays Capital.

In 2000, net fees and commissions increased by 15% to £3,369m (1999 £2,932m), reflecting strong growth in Barclays Global Investors and Barclays Capital and good performances in the other businesses.

Dealing Profits

	2001 £m	2000 £m	1999 £m
Rates related business	823	635	397
Credit related business	188	42	159
Statutory basis	1,011	677	556

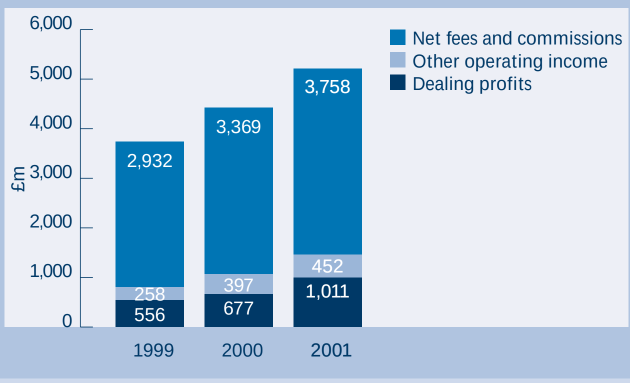
Almost all of the Group's dealing profits arise in Barclays Capital.

Dealing profits rose 49% to £1,011m (2000 £677m). The strong performance was underpinned by increased customer business in Barclays Capital, with client transaction volumes increasing by 77% and improved contributions from the US and Europe. Growth was broadly spread across a range of markets and products, with major increases in government bonds, foreign exchange, interest rate derivatives and debt capital markets.

The growth in dealing profits was achieved with a 3% lower average daily value at risk (DVaR) 2001: £16.9m (2000 £17.5m). The reduction in market risk levels reflects the continued focus on risk management.

Total foreign exchange income for 2001 was £525m (2000 £388m) and consisted of revenues earned from both retail and wholesale activities. The foreign exchange income earned by Personal Financial Services, Woolwich, Barclays Private Clients, Barclaycard, Business Banking, Barclays Africa and Barclays Global Investors on customer transactions, both externally and with Barclays Capital, is reported in those business units within fees and commissions.

Non interest income



Other operating Income

	2001 £m	2000 £m	1999 £m
Dividend income from equity shares	8	14	12
Profits on disposal of investment securities	37	45	41
Income from the long-term assurance business	172	171	44
Property rentals	30	22	27
Premium income on insurance underwriting	158	126	102
Other income	47	19	32
Statutory basis	452	397	258
Pro forma	452	432	N/A

Other operating income increased by 14% to £452m. On a pro forma basis, the increase was 5%.

Income from the long term assurance business was £172m (including £24m from Woolwich Life) compared with £171m (including £5m from Woolwich Life) in 2000. This income was restricted by lower stock market levels (£73m), and was partly offset by one-off benefits of £45m as a result of the Legal & General strategic alliance. In August 2001, the Group ceased to market its own life and pension products (and from that date the costs of the regulated sales force and field sales managers were no longer charged to the funds). Income from the sale of Legal & General products after that date is included in fees and commissions.

The result of the long term assurance business is after charging costs of £105m (2000 £146m) borne directly in the funds.

The unutilised amount of the redress provision in Barclays Life for customers who may have been mis-sold a personal pension is £47m at 31st December 2001 (2000 £80m). 8% of the cases originally identified for review remain to be settled.

Premium income on insurance underwriting increased to £158m (2000 £126m) predominantly benefiting from improved volumes relating to consumer lending and credit card borrowings.

In 2000 other operating income was £139m higher than in 1999 due to increased income from the long term assurance business.

Administrative expenses – staff costs

	2001 £m	2000 £m	1999 £m
Salaries and accrued incentive payments	3,149	2,655	2,467
Social security costs	243	178	190
Pension costs	(17)	(31)	38
Post-retirement health care	–	1	15
Other staff costs	339	416	347
Statutory basis	3,714	3,219	3,057
Included above:			
Woolwich integration costs	(24)	(1)	–
Restructuring charge	(114)	(171)	(192)
Woolwich fair value adjustments	2	–	–
Excluding Woolwich integration costs, Woolwich fair value adjustments and restructuring charges	3,578	3,047	2,865
Pro forma	3,578	3,189	N/A

Staff numbers

	2001	2000	1999
Personal Financial Services (a)	24,900	23,400	25,400
Woolwich (b)	7,300	7,200	800
Barclays Private Clients (c)	11,000	10,800	10,900
Barclaycard	4,200	4,000	3,800
Business Banking	9,700	9,500	12,000
Barclays Africa (d)	8,000	8,000	7,700
Barclays Capital	5,700	4,900	4,700
Barclays Global Investors	2,100	2,100	1,700
Other operations	5,300	5,900	7,300
Head office functions	400	400	500
Staff numbers (period end) (e)	78,600	76,200	74,800

Notes
(a) Includes 1,000 regulated salesforce and field sales managers and 100 administrative staff whose costs, following the strategic alliance with Legal & General, from 1st August 2001 are included in administrative expenses – staff costs. Previously, the costs were borne within the long term assurance fund. In 2000, the total related number of staff (1,000 regulated salesforce and field sales managers and 200 administrative staff) are excluded from the comparatives above. (31st December 1999 1,000 regulated salesforce and field sales managers and 300 administrative staff).

(b) Includes Woolwich plc staff from 2000 only.

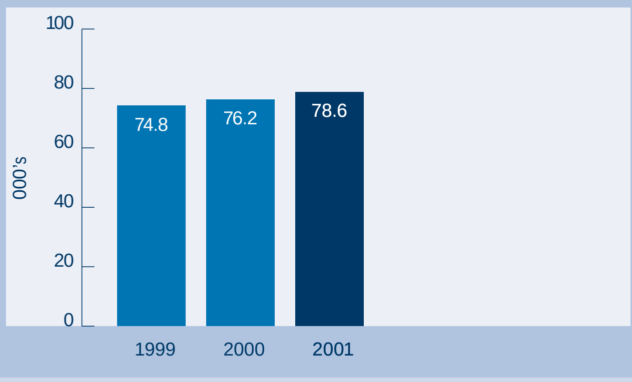
(c) Excludes 500 administrative staff (31st December 2000 900, 31st December 1999 1,000) whose costs are borne within the long term assurance fund.

(d) Includes 900 staff on contracts previously not reported within permanent headcount. Comparatives have been restated accordingly.

(e) Staff numbers are on a full time equivalent basis and do not include temporary and agency staff of 4,600 (31st December 2000 4,800, 31st December 1999 3,600) whose costs are included in staff costs.

Of the 78,600 staff at 31st December 2001 (31st December 2000 76,200), 60,400 (31st December 2000 58,200) (including 1,200 (31st December 2000 1,200) in the Channel Islands and Isle of Man) were based in the UK, 4,200 (31st December 2000 4,400) in other EU countries, 2,600 (31st December 2000 2,700) in the United States and 11,400 (31st December 2000 10,900) in the Rest of the world.

Staff numbers



Staff costs
Staff costs, excluding the restructuring charge and integration costs arising from the acquisition of Woolwich plc, increased on a pro forma basis by 12% (£389m) to £3,578m.

Salaries and accrued incentive payments rose by £494m. The rise largely reflects increased performance related payments and the cost of building new capability in Barclays Capital. Salaries and accrued incentive payments also include the cost of the Performance Incentive Plan (PIP) which was launched in 2001. The PIP combines the previous bonus and profit sharing schemes into a single bonus scheme. In addition, staff costs in 2001 included £31m relating to the regulated sales force and field sales managers whose costs from 1st August 2001 were included in staff costs following the formation of the strategic alliance with Legal & General.

Staff numbers overall rose by 2,400 in the year, of which 1,100 is attributable to the inclusion of the UK regulated sales force and field sales managers and related administrative staff.

Pension costs include a credit of £72m (2000 £74m) in respect of the Group's main UK schemes.

The reduction in other staff costs reflects lower levels of job reductions compared to 2000.

In addition to the 2,500 staff who have left the Group in 2001 under the 2000 and 2001 restructuring programmes, there are 1,800 staff where the notice process was underway at 31st December 2001. The business groups impacted are primarily Barclays Private Clients, Personal Financial Services and Business Banking.

New jobs were created in most areas of the business with increases in Barclays Capital, in line with the strategic plans for business growth, in customer facing roles in Woolwich and Personal Financial Services, and in Business Banking.

In 2000, staff costs rose 5% to £3,219m. Salaries and accrued incentive payments rose by 8% largely reflecting increased performance related payments in Barclays Capital and Barclays Global Investors. Excluding performance related payments, salary costs across the Group were flat compared with 1999.

Administrative expenses – other

	2001 £m	2000 £m	1999 £m
Property and equipment expenses			
Hire of equipment	16	20	21
Property rentals	183	157	218
Other property and equipment expenses	775	641	613
	974	818	852
Other administrative expenses			
Stationery, postage and telephones	318	261	236
Advertising and market promotion	212	221	190
Travel, accommodation and entertainment	143	123	117
Subscriptions and publications	83	65	58
Securities clearing and other operational expenses	36	26	20
Sundry losses, provisions and write-offs	141	115	78
Statutory and regulatory audit and accountancy fees	7	7	6
Consultancy fees	133	158	121
Professional fees	130	99	88
Other expenses	126	74	41
Statutory basis	2,303	1,967	1,807
Included above:			
Woolwich Integration costs	(65)	(6)	–
Restructuring charge	(57)	(61)	(152)
Excluding Woolwich integration costs and restructuring charges	2,181	1,900	1,655
Pro forma	2,181	2,135	N/A

Administrative expenses increased by £336m to £2,303m. On a pro forma basis, the increase was 2% (£46m) to £2,181m.

The increase in administrative expenses is mainly attributable to higher levels of business and increased strategic investment.

In 2000, Administrative expenses increased by 9% to £1,967m with advertising and market promotion expenditure returning to pre 1999-levels and volume related increases.

Depreciation and amortisation

	2001 £m	2000 £m	1999 £m
Property depreciation	105	85	93
Equipment depreciation	194	166	170
Loss on sale of equipment	9	4	4
	308	255	267
Goodwill amortisation			
– Woolwich plc	206	38	–
– other	23	13	13
Statutory basis	537	306	280
Included above:			
Goodwill amortisation	(229)	(51)	(13)
Woolwich fair value adjustments	–	1	–
Excluding goodwill amortisation and Woolwich fair value adjustments	308	256	267
Pro forma	308	294	N/A

The increase in goodwill amortisation – other relates to the Group's Brazilian operation, Banco Barclays e Galicia SA, which has been accounted for as a subsidiary from 1st January 2001.

The acquisition of Woolwich plc resulted in goodwill of £4,121m with an estimated economic life of 20 years. The annual charge is therefore £206m for a full year.

In 2000, goodwill amortisation of £38m was charged relating to the acquisition of Woolwich plc, representing the period from 25th October 2000 to 31st December 2000.

Provisions for bad and doubtful debts

	2001 £m	2000 £m	1999 £m
Specific charge	1,165	777	635
General (release)/charge	(16)	40	(14)
Statutory basis	1,149	817	621
Pro forma	1,149	850	N/A

The net provision charge rose 41% (£332m) to £1,149m. On a pro forma basis, the increase in the net provision charge was 35%. New and increased specific provisions increased by 47% (£459m) to £1,440m while releases and recoveries of £275m were £71m higher. During the year there was a £40m reclassification from general provision to specific provision in Personal Finance Services based on the introduction of a statistical methodology enabling earlier recognition of specific impairment. This is reflected as a new and increased specific provision and a release of general provision.

Business Banking and Barclays Capital accounted for 55% of growth in provisions (on a pro forma basis). The current deterioration in economic conditions in the corporate sector, where there are smaller numbers of larger value lendings, has resulted in greater volatility in provisions in this sector. In the personal sector, Barclaycard provisions reflected the continued high levels of new customer recruitment, and in the rest of the sector, provisions growth was primarily as a result of increased lending volumes. There was an increase in new and increased provisions in the US, primarily relating to a small number of large loans. Increased levels of releases and recoveries were experienced by Business Banking and Barclays Capital in the second half of 2001.

The net provision charge for the period as a percentage of average banking loans and advances was 0.73% compared with 0.67% in 2000. Provision coverage of total potential credit risk lendings decreased slightly to 52.9% compared with 54.5% at 31st December 2000.

In 2000, the net provisions charge rose 32% to £817m. The increase in the net specific credit risk charge reflected both an increase in new and increased provisions and a reduction in releases and recoveries.

Provisions for contingent liabilities and commitments

	2001 £m	2000 £m	1999 £m
Statutory basis	1	(1)	1

Loss from joint ventures and associated undertakings

	2001 £m	2000 £m	1999 £m
Loss from joint ventures	(1)	(1)	(1)
Loss from associated undertakings	(8)	(7)	(13)
Statutory basis	(9)	(8)	(14)

The loss from associated undertakings in 2001 is attributable to start up costs of new ventures in Business Banking.

The loss from associated undertakings in 2000 and 1999 largely arose from the Group's then associated undertaking Banco Barclays e Galicia SA.

Loss on sale or restructuring of BZW

	2001 £m	2000 £m	1999 £m
Statutory basis	–	–	(30)

(Loss)/profit on disposal of other Group undertakings

	2001 £m	2000 £m	1999 £m
Statutory basis	(4)	214	(108)

The loss on disposal of other Group undertakings represents losses of £19m offset by gains of £15m.

In 2000, the profit on disposal of other Group undertakings includes a £186m profit on the sale of Dial in June 2000 and £18m profit on the sale of Barclays Property Investment Management in October 2000.

The loss on disposal of other Group undertakings in 1999 includes a £117m loss (after £138m charge for goodwill which had been previously written off to reserves) on the sale of Merck Finck in March 1999.

Tax

The overall tax charge is explained in the following table:

	2001 £m	2000 £m	1999 £m
Tax charge at average UK corporation tax rate of 30% (2000 30%, 1999 30.25%)	1,082	1,049	743
Prior year adjustments	34	9	(44)
Effect of change in non-allowable general provisions	(11)	24	4
Effect of non-allowable property write-downs and depreciation	17	6	7
Net effect of differing tax rates overseas	(65)	(43)	(34)
Net effect of overseas losses not available for relief in the UK	(17)	(5)	–
Other non-allowable expenses	(21)	16	9
Gains covered by capital losses brought forward	(49)	(53)	–
Goodwill	67	11	–
Other items	(27)	(70)	(41)
Overall tax charge	1,010	944	644
Effective tax rate %	28.0	27.0	26.2

The increase in the effective rate to 28.0% from 27.0% in 2000 reflects the increased charge relating to the amortisation of goodwill from the acquisition of Woolwich plc offset by the benefit of lower overseas tax rates and the use of Capital Gains Tax losses.

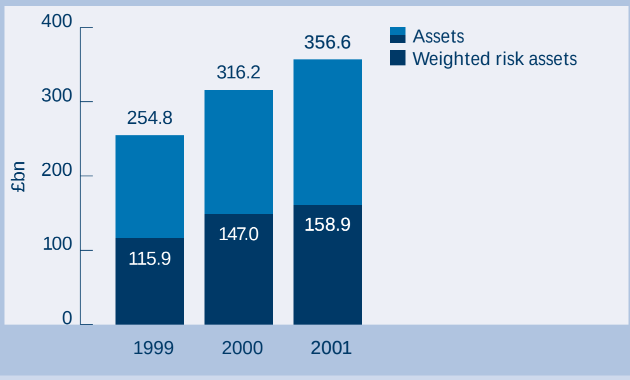
Restructuring charge

Total restructuring charge of £171m primarily relates to other operations (£52m), Business Banking (£31m), Barclays Private Clients (£29m) and Barclays Capital (£23m). Expenditure of £91m was incurred during the year against the provisions raised as at 31st December 2000 and £86m in respect of the 2001 programme. Accrued provision at 31st December 2001 amounted to £130m (31st December 2000 £132m).

In 2000 the Group incurred a restructuring charge of £232m (1999 £344m).

Total assets and liabilities

Total assets and weighted risk assets



The Group's balance sheet grew £40bn, or 13%, in the year to £357bn. This compared to a 24% increase in 2000. Weighted risk assets rose by 8% to £159bn.

Within Business Banking, assets grew by 7% to £44bn in the year, with weighted risk assets increasing by 5% in the same period. Growth has been predominantly in lending to larger business customers.

Barclays Capital assets increased by 20% to £202bn during 2001, predominantly as a result of growth in the Rates businesses. There was an increase of £15bn in the balance of reverse repos and stock-lending assets, driven mainly by the prime brokerage business where collateralised customer inventory financing positions continued to grow. In addition, there were increases in the holdings of debt securities of £10bn. Total weighted risk assets increased by only 15% to £53bn, reflecting the relatively low weightings associated with government securities and reverse repos.

In the year, Woolwich total assets grew by 4% to £58bn, and weighted risk assets rose by 5% to £30bn. UK mortgage outstandings grew by 9% to £52bn.

Barclays Private Clients total assets of £13.7bn were 3% above the £13.4bn at the end of 2000.

Within Barclaycard, total assets fell by £0.5bn in the year to £9.3bn. Weighted risk assets reduced by 2% to £9.4bn. The reduction reflected lower consumer lending balances.

Within Personal Financial Services, total assets grew by 10% to £7.2bn. Weighted risk assets were 9% higher at £6.1bn due to growth in both current account overdrafts and consumer lending.

Repo transactions

Under a repo (sale and repurchasing agreement), an asset is sold to a counterparty with a commitment to repurchase it at a future date at an agreed price. The Group engages in repos and also in reverse repos, which are the same transaction in the opposite direction, the Group buying an asset with a fixed commitment to resell. The Group aims to earn spread and trading income from these activities as well as funding its own holdings of securities.

The following amounts were included in the balance sheet for repos and reverse repos and are reported on a net basis where permitted:

	2001 £m	2000 £m	1999 £m
Reverse repos (assets)			
Loans and advances to banks	32,042	25,595	26,040
Loans and advances to customers	29,731	20,758	19,910
	61,773	46,353	45,950
Repos (liabilities)			
Deposits by banks	25,048	16,275	16,631
Customer accounts	16,204	17,053	17,422
	41,252	33,328	34,053

The average and maximum amount of reverse repos for 2001 were £95,849m and £119,942m (2000 £48,952m and £60,356m, 1999 £35,495m and £47,468m) respectively. The average and maximum amount of repos for 2001 were £88,311m and £116,458m (2000 £40,462m and £52,163m, 1999 £29,671m and £39,099m) respectively.

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

	2001			2000			1999		
	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Assets									
Treasury bills and other eligible bills:									
in offices in the UK	3,952	189	4.8	4,491	146	3.3	3,697	175	4.7
in offices outside the UK	1,114	89	8.0	844	88	10.4	898	90	10.0
Loans and advances to banks:									
in offices in the UK	7,615	346	4.5	6,579	355	5.4	7,762	361	4.7
in offices outside the UK	5,827	265	4.5	6,361	397	6.2	8,224	442	5.4
Loans and advances to customers:									
in offices in the UK	116,279	8,406	7.2	83,651	6,810	8.1	68,752	5,549	8.1
in offices outside the UK	23,573	1,498	6.4	20,693	1,298	6.3	16,154	893	5.5
Lease receivables:									
in offices in the UK	4,384	245	5.6	4,683	316	6.7	5,059	346	6.8
in offices outside the UK	226	18	8.0	366	39	10.6	537	67	12.5
Debt securities:									
in offices in the UK	36,858	2,069	5.6	26,973	1,630	6.0	15,256	851	5.6
in offices outside the UK	5,189	333	6.4	11,559	709	6.1	9,928	546	5.5
Average assets of banking business	205,017	13,458	6.6	166,200	11,788	7.1	136,267	9,320	6.8
Average assets of trading business	132,904	5,436	4.1	98,156	4,808	4.9	67,278	3,655	5.4
Total average interest earning assets	337,921	18,894	5.6	264,356	16,596	6.3	203,545	12,975	6.4
Provisions	(2,513)			(2,115)			(1,955)		
Non-interest earning assets	48,825			43,125			42,526		
Total average assets and interest income	384,233	18,894	4.9	305,366	16,596	5.4	244,116	12,975	5.3
Percentage of total average assets in offices outside the UK	27.5			31.4			31.0		
Average interest earning assets and net interest income:									
Banking business	205,017	6,108	3.0	166,200	5,161	3.1	136,267	4,630	3.4
Trading business	132,904	(388)	(0.3)	98,156	(216)	(0.2)	67,278	(31)	–
Discount rate adjustment on provisions		(4)	–		(8)	–		(6)	–
Profit on redemption/repurchase of loan capital		–	–		2	–		3	–
Total average interest earning assets and net interest income	337,921	5,716	1.7	264,356	4,939	1.9	203,545	4,596	2.3
Total average interest earning assets related to:									
Interest income		18,894	5.6		16,596	6.3		12,975	6.4
Interest expense		(13,174)	(3.9)		(11,651)	(4.4)		(8,376)	(4.1)
Discount rate adjustment on provisions		(4)	–		(8)	–		(6)	–
Profit on redemption/repurchase of loan capital		–	–		2	–		3	–
		5,716	1.7		4,939	1.9		4,596	2.3

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

	2001			2000			1999		
	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Liabilities and shareholders' funds									
Deposits by banks:									
in offices in the UK	27,547	1,144	4.2	21,465	932	4.3	14,210	479	3.4
in offices outside the UK	10,548	366	3.5	13,736	545	4.0	11,506	460	4.0
Customer accounts – demand deposits:									
in offices in the UK	14,646	209	1.4	13,302	220	1.7	12,786	168	1.3
in offices outside the UK	1,734	37	2.1	1,707	50	2.9	1,827	35	1.9
Customer accounts – savings deposits:									
in offices in the UK	37,341	1,153	3.1	27,349	1,005	3.7	24,517	772	3.1
in offices outside the UK	1,297	50	3.9	1,312	62	4.7	1,307	55	4.2
Customer accounts – other time deposits – retail:									
in offices in the UK	38,521	1,906	4.9	28,639	1,634	5.7	23,998	1,231	5.1
in offices outside the UK	5,611	251	4.5	5,785	316	5.5	5,076	234	4.6
Customer accounts – other time deposits – wholesale:									
in offices in the UK	31,474	1,315	4.2	22,596	1,165	5.2	19,555	848	4.3
in offices outside the UK	7,240	340	4.7	10,005	553	5.5	6,067	306	5.0
Debt securities in issue:									
in offices in the UK	30,378	1,546	5.1	19,904	1,057	5.3	15,656	777	5.0
in offices outside the UK	11,083	522	4.7	7,279	457	6.3	7,130	379	5.3
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	7,495	464	6.2	4,643	335	7.2	4,092	263	6.4
Internal funding of trading business	(42,480)	(1,953)	(4.6)	(30,355)	(1,704)	(5.6)	(29,231)	(1,317)	(4.5)
Average liabilities of banking business	182,435	7,350	4.0	147,367	6,627	4.5	118,496	4,690	4.0
Average liabilities of trading business	134,609	5,824	4.3	98,297	5,024	5.1	71,535	3,686	5.2
Total average interest bearing liabilities	317,044	13,174	4.2	245,664	11,651	4.7	190,031	8,376	4.4
Interest free customer deposits:									
in offices in the UK	10,282			9,468			8,677		
in offices outside the UK	2,151			1,858			1,597		
Other non-interest bearing liabilities	38,891			37,637			35,190		
Minority and other interests and shareholders' funds	15,865			10,739			8,621		
Total average liabilities, shareholders' funds and interest expense	384,233	13,174	3.4	305,366	11,651	3.8	244,116	8,376	3.4
Percentage of total average non-capital liabilities in offices outside the UK	26.5			30.5			30.3		

Notes

(a) 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.

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

(c) The average balance sheet does not include the retail life-fund assets attributable to policyholders nor the related liabilities.

Changes in net interest income – volume and rate analysis

The following table allocates 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.

		2001/2000 Change due to increase/(decrease) in:			2000/1999 Change due to increase/(decrease) in:	
	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	43	(19)	62	(29)	33	(62)
in offices outside the UK	1	24	(23)	(2)	(6)	4
	44	5	39	(31)	27	(58)
Loans and advances to banks:						
in offices in the UK	(9)	52	(61)	(6)	(59)	53
in offices outside the UK	(132)	(31)	(101)	(45)	(110)	65
	(141)	21	(162)	(51)	(169)	118
Loans and advances to customers:						
in offices in the UK	1,596	2,425	(829)	1,261	1,213	48
in offices outside the UK	200	183	17	405	274	131
	1,796	2,608	(812)	1,666	1,487	179
Lease receivables:						
in offices in the UK	(71)	(19)	(52)	(30)	(25)	(5)
in offices outside the UK	(21)	(13)	(8)	(28)	(19)	(9)
	(92)	(32)	(60)	(58)	(44)	(14)
Debt securities:						
in offices in the UK	439	562	(123)	779	703	76
in offices outside the UK	(376)	(407)	31	163	96	67
	63	155	(92)	942	799	143
Total banking business interest receivable:						
in offices in the UK	1,998	3,001	(1,003)	1,975	1,865	110
in offices outside the UK	(328)	(244)	(84)	493	235	258
	1,670	2,757	(1,087)	2,468	2,100	368
Total trading business interest receivable	628	1,511	(883)	1,153	1,542	(389)
Total interest receivable	2,298	4,268	(1,970)	3,621	3,642	(21)

Changes in net interest income – volume and rate analysis

		2001/2000 Change due to increase/(decrease) in:			2000/1999 Change due to increase/(decrease) in:	
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest payable						
Deposits by banks:						
in offices in the UK	212	254	(42)	453	290	163
in offices outside the UK	(179)	(116)	(63)	85	89	(4)
	33	138	(105)	538	379	159
Customer accounts – demand deposits:						
in offices in the UK	(11)	21	(32)	52	7	45
in offices outside the UK	(13)	1	(14)	15	(2)	17
	(24)	22	(46)	67	5	62
Customer accounts – savings deposits:						
in offices in the UK	148	326	(178)	233	95	138
in offices outside the UK	(12)	(1)	(11)	7	–	7
	136	325	(189)	240	95	145
Customer accounts – other time deposits – retail:						
in offices in the UK	272	510	(238)	403	256	147
in offices outside the UK	(65)	(9)	(56)	82	35	47
	207	501	(294)	485	291	194
Customer accounts – other time deposits – wholesale:						
in offices in the UK	150	399	(249)	317	143	174
in offices outside the UK	(213)	(138)	(75)	247	215	32
	(63)	261	(324)	564	358	206
Debt securities in issue:						
in offices in the UK	489	535	(46)	280	223	57
in offices outside the UK	65	198	(133)	78	8	70
	554	733	(179)	358	231	127
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	129	182	(53)	72	38	34
Internal funding of trading businesses	(249)	(596)	347	(387)	(52)	(335)
Total banking business interest payable:						
in offices in the UK	1,140	1,631	(491)	1,423	1,000	423
in offices outside the UK	(417)	(65)	(352)	514	345	169
	723	1,566	(843)	1,937	1,345	592
Total trading business interest payable	800	1,655	(855)	1,338	1,368	(30)
Total interest payable	1,523	3,221	(1,698)	3,275	2,713	562
Movement in net interest income						
Increase/(decrease) in interest receivable	2,298	4,268	(1,970)	3,621	3,642	(21)
(Increase)/decrease in interest payable	(1,523)	(3,221)	1,698	(3,275)	(2,713)	(562)
	775	1,047	(272)	346	929	(583)
Movement in write-down of leases	–			–		
Movement in profit on redemption/repurchase of loan capital	(2)			(1)		
Movement in discount rate adjustment on provisions	4			(2)		
	777			343		

Capital resources

The Group continues to manage actively both its debt and equity capital. Total capital resources increased in the year by £3,472m.

	2001 £m	2000 £m	1999 £m
Barclays PLC Group			
Shareholders' funds	14,508	13,187	8,483
Minority & other interests	2,006	1,600	352
	16,514	14,787	8,835
Undated loan capital	3,182	2,672	1,749
Dated loan capital	4,933	3,698	2,848
Total capital resources	24,629	21,157	13,432

	2001 £m	2000 £m	1999 £m
Barclays Bank PLC Group			
Shareholders' funds	16,380	14,679	8,753
Minority interests	134	108	82
	16,514	14,787	8,835
Undated loan capital	3,182	2,672	1,749
Dated loan capital	4,933	3,698	2,848
Total capital resources	24,629	21,157	13,432

Shareholders' funds increased by £1,321m mainly due to profit retentions.

The increase in minority and other interests reflects the issue by Barclays Bank PLC of US$750m (£520m) 7.375% Step-up Callable Perpetual Reserve Capital Instruments on 5th June 2001. This was offset in part by redemption of the outstanding Series D1 and D2 Non-cumulative Dollar denominated Preference shares at an aggregate cost of US$213m (£148m).

Loan capital rose by £1,745m, primarily reflecting raisings of £2,499m offset by repayments of £715m.

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 Community 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 ('core') capital, comprising mainly shareholders' funds and including Reserve Capital Instruments (included in minority and other interests in Barclays PLC Group and within shareholders' funds in Barclays Bank PLC Group) 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, general provisions for bad and doubtful debts and fixed asset revaluation reserves. Tier 2 capital can be used to support both trading and banking activities. Tier 3 capital 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.

The following table analyses capital resources at 31st December 2001, as defined for regulatory purposes:

Capital adequacy data

	2001		2000	
	Barclays PLC Group £m	Barclays Bank PLC Group £m	Barclays PLC Group £m	Barclays Bank PLC Group £m
Tier 1				
Shareholders' funds (as defined for regulatory purposes)	10,373	12,240	8,878	10,370
Minority interests in tier 1	2,070	203	1,669	177
Total tier 1 capital	12,443	12,443	10,547	10,547

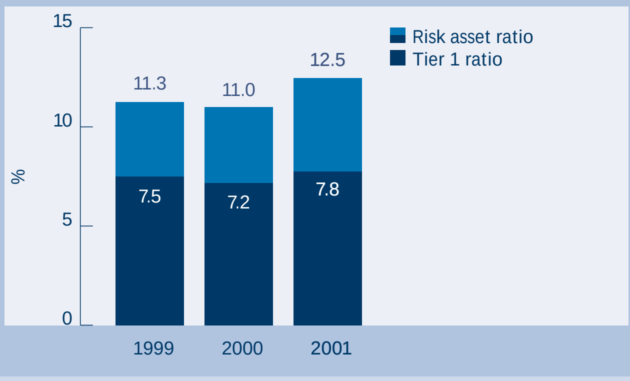
	2001 £m	2000 £m
Tier 2		
Fixed asset revaluation reserves	31	36
Minority interests in Tier 2	8	4
Qualifying undated and dated loan capital (a)	7,613	5,819
	7,652	5,859
General allowances for bad and doubtful debts	745	760
Total tier 2 capital	8,397	6,619
Tier 3		
Short-term subordinated loans	392	331
Total tier 3 capital	392	331
Gross capital resources	21,232	17,497
Less: supervisory deductions (b)	(1,333)	(1,312)
Total net capital resources	19,899	16,185

Notes

(a) Dated and undated subordinated debt is included in tier 2 or 3, subject to limits laid down in the supervisory requirements. Barclays retains significant capacity to raise additional capital within these limits.

(b) Includes £921m (2000 £820m) of shareholders' interest in the retail life-fund.

Capital ratios



	2001		2000	
	Barclays PLC Group %	Barclays Bank PLC Group %	Barclays PLC Group %	Barclays Bank PLC Group %
Capital ratios				
Tier 1 ratio	7.8	7.8	7.2	7.2
Risk asset ratio	12.5	12.5	11.0	11.0

	£m	£m
Weighted risk assets		
Banking book		
on-balance sheet	120,113	112,633
off-balance sheet	20,368	18,413
associated undertakings	499	783
Total banking book	140,980	131,829
Trading book		
market risks	7,801	6,440
counterparty and settlement risks	10,092	8,771
Total trading book	17,893	15,211
Total weighted risk assets	158,873	147,040

Deposits

	Average: year ended 31st December		
	2001 £m	2000 £m	1999 £m
Deposits by banks			
Offices in the UK	27,547	21,465	14,210
Offices outside the UK:			
Other European Union	3,313	3,996	5,025
United States	2,667	4,618	3,816
Rest of the World	4,568	5,122	2,665
	38,095	35,201	25,716
Customer accounts			
Offices in the UK	132,264	101,354	89,533
Offices outside the UK:			
Other European Union	5,231	5,050	4,991
United States	3,550	5,201	2,515
Rest of the World	9,252	10,416	8,368
	150,297	122,021	105,407

Average deposits (excluding trading balances) are analysed by type in the average balance sheet on page 51 and are based on the location of the office in which the deposits are recorded.

'Demand deposits' in offices in the UK are mainly current accounts with credit balances, obtained through the UK branch network.

'Savings deposits' in offices in the UK are also obtained through, and administered by, the UK branch network. Interest rates are varied from time to time in response to competitive conditions. These deposits are not drawn against by cheque or similar instrument.

'Other time deposits – retail' in offices in the UK are interest bearing and also are not drawn against by cheque or similar instrument. They are generally distinguished from savings deposits by having fixed maturity requirements and from wholesale deposits by being collected, in the main, through the UK branch network.

'Other time deposits – wholesale' in offices in the UK are obtained through the London money market and are booked mainly within the Group's money market operations. These deposits are of fixed maturity and bear interest rates which relate to the London inter-bank money market rates.

'Other time deposits' includes commercial paper and inter-bank funds.

Although the types of deposit products offered through offices located outside the UK are broadly similar to those described above, they are tailored to meet the specific requirements of local markets.

Short-term borrowings

Short-term borrowings include Deposits by banks as reported in ‘Deposits’.

Deposits by banks (excluding trading business)

	2001 £m	2000 £m	1999 £m
Year-end balance	45,837	32,445	26,915
Average balance	38,095	35,201	25,716
Maximum balance	53,621	45,923	35,384
Average interest rate during year	4.0%	4.2%	3.7%
Year-end interest rate	3.3%	4.5%	3.8%

Commercial paper

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

	2001 £m	2000 £m	1999 £m
Year-end balance	3,268	2,209	1,082
Average balance	2,669	2,001	857
Maximum balance	4,419	3,668	2,131
Average interest rate during year	3.0%	6.6%	5.2%
Year-end interest rate	2.0%	6.4%	5.3%

Negotiable certificates of deposit

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

	2001 £m	2000 £m	1999 £m
Year-end balance	28,258	22,413	19,496
Average balance	30,209	20,918	19,781
Maximum balance	37,686	29,125	26,118
Average interest rate during year	4.7%	5.2%	5.0%
Year-end interest rate	3.0%	6.3%	5.3%

Securities

The following table analyses the book value and valuation of securities.

	2001 Book value £m	2001 Valuation £m	2000 Book value £m	2000 Valuation £m	1999 Book value £m	1999 Valuation £m
Investment securities						
Debt securities:						
UK government	1,500	1,499	1,496	1,571	1,666	1,664
other government	15,152	15,330	12,117	12,378	9,315	9,340
other public bodies	1,144	1,150	1,194	1,193	69	71
other issuers	13,248	13,265	14,913	14,929	9,741	9,748
Equity shares	194	215	244	295	179	206
	31,238	31,459	29,964	30,366	20,970	21,029
Other securities						
Debt securities:						
UK government	1,284	1,284	845	845	1,278	1,278
other government	15,659	15,659	15,555	15,555	7,031	7,031
other public bodies	1,091	1,091	1,280	1,280	503	503
bank and building society certificates of deposit	15,376	15,376	13,837	13,837	18,005	18,005
other issuers	14,470	14,470	9,533	9,533	6,311	6,311
Equity shares	2,924	2,924	3,818	3,818	5,425	5,425
	82,042	82,263	74,832	75,234	59,523	59,582

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. Investment securities are valued at cost, adjusted for the amortisation of premiums or discounts to redemption, less any provision for diminution in value.

Other securities comprise dealing securities and short-term certificates of deposit and are principally valued at market value.

Bank and building society certificates of deposit are freely negotiable and have original maturities of up to 5 years, but are typically held for shorter periods.

A further analysis of the book value and valuation of securities is given in notes 19 and 20 to the accounts.

In addition to UK government securities shown above, at 31st December 2001 and 2000 the Group held the following government securities which exceeded 10% of shareholders' funds:

	2001 Book value £m	2001 Valuation £m	2000 Book value £m	2000 Valuation £m
Japanese government securities	6,012	6,014	5,584	5,586
Italian government securities	6,068	6,122	5,266	5,382
German government securities	5,880	5,889	2,838	2,838
US government securities	4,849	4,846	6,429	6,426
French government securities	1,546	1,580	1,963	1,968

Maturities and weighted average yield of investment debt securities

	Maturing within one year: Amount £m	Yield %	Maturing after one but within five years: Amount £m	Yield %	Maturing after five but within ten years: Amount £m	Yield %	Maturing after ten years: Amount £m	Yield %	Total Amount £m	Total Yield %
Government	3,617	4.9	9,996	5.4	2,582	3.4	457	6.7	16,652	5.0
Other public bodies	254	4.5	604	3.8	286	3.1	–	–	1,144	3.8
Other issuers	5,268	6.2	6,839	4.4	1,048	4.0	93	7.5	13,248	5.1
Total book value	9,139	5.7	17,439	5.0	3,916	3.5	550	6.8	31,044	5.0
Total valuation	9,177		17,541		3,977		549		31,244	

The weighted average yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2001 by the book value of securities held at that date. Yields on certain US securities, which are exempt from tax, have been calculated using interest income adjusted to reflect a taxable equivalent basic.

Risk management and control – overview

Barclays aims to employ superior risk practices to optimise financial performance and value.

Risk governance

Barclays manages a variety of risks in the ordinary course of business. These risks are identified, measured and monitored through various control mechanisms across the Group, in a manner consistent with the requirements of the 'Internal control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales.

Barclays approach to risk management, governance and control continues to evolve to reflect current best practice, risk management research and recognition of new risks. However, risk management and internal control processes can only manage and not eliminate all risks. The objective is to provide reasonable, but not absolute, assurance against material misstatement or loss.

Barclays believes that the Group's governance framework has continued to be enhanced during 2001. The current governance framework within the Group is being developed based on the following four principles:

Shareholder value based

» Internal controls should focus on risks that could prevent the Group achieving its business objectives and the desired shareholder value added.

» Responsibility for internal controls must be clearly defined and documented.

Embedded in the culture

» The culture of the Group should reflect the risk appetite approved by the Board at all levels in the organisation.

» Training should be given to staff to ensure that risks can be regularly monitored and that corrective action can be taken in a timely manner.

Assurance

» Risk management systems should be able to provide management with assurance that risks are being managed appropriately and the system of internal controls over risk systems is adequate and effective.

Board review

» The Board should undertake an annual review of the effectiveness of the risk management processes and systems of internal control.

» The Group's risk profile should be reviewed on a regular basis.

Responsibilities for risk management and control

The responsibilities for risk management and control in the current governance framework rests with the:

» Board for ensuring that management maintain an effective system of internal control and for reviewing its effectiveness;

» Group Chief Executive and the Group Executive Committee for managing risk; and

» Group Governance and Control Committee for monitoring the Group's assurance process and the risk governance framework to ensure that it is complete and effective.

These responsibilities are managed through:

» The Group's management committees. The main committees and their current principal risk management and control responsibilities are shown in the structure chart on the following page. The committees' roles have been reviewed and updated during 2001 in order to enhance the risk governance framework.

» Business and regional governance and control committees. These committees report to the Group Governance and Control Committee. They are responsible for ensuring that business risk governance and control frameworks have been established in each business in a manner that is consistent with the Group's risk governance and control framework. They also review and assess the completeness and effectiveness of, and compliance with, internal controls within each business.

» Group Risk and other Group functions.

Risk management organisation

Against a background of a rapidly changing business environment, Barclays believes that its risk organisation needs to be capable of adapting quickly to new product and business structures. During 2001, Barclays continued to develop its integrated risk organisation, both to remain flexible in the face of changing business needs and to support the Value Based Management principles of the Group.

A key feature of the integrated risk management organisation is that it brings together both business risk functions and specialist risk teams.

Risk management in the businesses is the responsibility of the Business Risk Directors (BRDs), who have a functional reporting line to the Group Risk Director. The key role of Business Risk Directors is to assist the businesses to maximise value by:

» Performing high quality risk analysis.
» Ensuring that risks are properly controlled.
» Evaluating economic trade-offs between risks.
» Designing cost-effective ways of mitigating and transferring risks.
» Generating alternative risk strategies.

Specialist risk teams report to the Group Risk Director. Their role is to :

» Measure and control aggregate risk.
» Set high level policies and standards within the overall risk governance framework.
» Perform research, development and quality assurance.
» Provide analytical support to businesses.

The following risks are managed in the risk management organisation:

» Credit risk.
» Market risk.
» Treasury asset and liability management (including liquidity risk management, interest rate exposure, foreign exchange exposure, management of foreign currency investments and hedging).
» Operational and other risks (including Compliance, Legal and Tax risk management).

These risks are analysed further in subsequent sections of the Financial Review.

Committees involved in risk management and control

BOARD COMMITTEES

Board

Board Risk Committee

» Approves the Group risk governance framework and principles.
» Approves risk management standards.
» Approves overall Group risk appetite.
» Reviews the Group risk profile.

Board Audit Committee

» Reviews the effectiveness of risk management standards.
» Reviews reports on control issues of Group level significance.

MANAGEMENT COMMITTEES

Group Chief Executive Group Executive Committee

» Monitors and manages risk adjusted performance of strategic business units.
» Approves economic capital allocations.

Group Governance and Control Committee

» Ensures the establishment, implementation, completeness and effectiveness of the Group risk governance and control framework.
» Monitors compliance with the risk governance framework.
» Approves all Group-level risk policies and ensures that they are consistent with risk management standards.
» Reviews report of the management assurance process over adequacy and effectiveness of internal controls.

Group Treasury Committee

» Recommends policy/controls for liquidity, maturity transformation and structural interest rate exposure to Group Governance and Control Committee.
» Monitors the Group's liquidity and maturity mismatch.
» Monitors usage of economic capital.

Group Operating Committee

» Recommends Group operational policies and controls for shared infrastructure to the Group Governance and Control Committee.

Group Risk Oversight Committee

» Reviews stress tests for all risk types and portfolio concentrations.
» Approves risk limits, guidelines and triggers based on the approved risk appetite and risk governance framework.
» Escalates to Group Governance and Control Committee potential material changes to and completeness of the risk control framework.

Group Risk Technical Committee

» Approves risk measurement and economic capital methodologies.
» Approves the quality assurance framework for risk models.

Group Credit Committee

» Sanctions large credit exposures.
» Approves revisions to country grades.

Credit risk management

Credit risk arises because the Group's customers, clients or counterparties may not be willing or able to fulfil their contractual obligations. This type of risk may be divided into a number of different categories including primary, trading and settlement risks.

In relation to its management of credit risk, the Group Credit Risk Unit (GCRU) has day-to-day responsibility for monitoring compliance with Group policies. GCRU also reviews portfolio management and risk concentration issues, including country exposure, sector exposure, product risks and credit grading. GCRU is headed by the Group Credit Risk Director and reports to the Group Risk Director.

Risk measurement

The Group uses risk tendency (expected credit losses) to assist in portfolio management decisions, such as:

» Setting exposure limits to any single counterparty or borrower.

» Establishing the desired aggregate exposure levels to individual sectors.

» Determining pricing policy.

» Setting the level of the general provision for loan losses.

Risk tendency is calculated based on internal ratings, severity and exposure in event of default.

Internal ratings correspond to a probability of a customer defaulting within a 12 months period. A comparison of Barclays internal rating, the associated expected probability of default (PD) and the equivalent credit rating agency ratings are shown in the table below:

Severity is the expected provision if a loan defaults calculated as a percentage of the exposure in the event of default.

Exposure in event of default represents the expected exposure outstanding when default occurs. This is usually based on anticipated utilisation of agreed facilities at default.

Exposure in event of default for derivative instruments represents the potential cost to replace contracts with a positive value if counterparties failed to perform their obligations. This cost is monitored on an ongoing basis.

Risk control

The Group Credit Committee is responsible for sanctioning large credit exposures to all customers and counterparties arising from lending, trading activities, derivative instruments and settlement risks.

The Group Credit Committee is supported by business line focused risk management departments (RMDs) either in or responsible to each of the SBU's. Each RMD ensures that the SBU adheres to Group Risk Management Standards and Polices for credit risk analysis and sanctioning. The SBUs' credit risk positions are reviewed and challenged by the GCRU on a regular basis.

The majority of the Group's personal and corporate credit exposures are sanctioned and reviewed according to a hierarchy of credit exposure discretions, whereby credit risk teams, overseas country offices and specialist lending departments are allocated discretionary limits. Local management are sub-allocated different levels of discretionary limits, which vary according to their skills, experience, seniority and the quality of the borrower as measured by the credit grading structure. A similar hierarchy exists for monitoring and provisioning purposes.

Credit risk within Barclaycard is controlled by their RMD. Policy relating to exposures is set by this department and implemented by the Customer Management Teams. Within Customer Management, advisors are allocated discretionary limits, according to their grade and experience. Any lending decision falling outside policy may only be sanctioned after reference to their RMD.

Barclays Internal Rating	Probability of Default (PD)			S&P Equivalent Rating	Moody's Equivalent Rating
	Minimum	Maximum	Mid Point		
1.2	0.02%	0.04%	0.025%	AAA/AA+/AA	Aaa/Aa/A1
1.5	0.05%	0.09%	0.075%	AA-/A+	A2
1.8	0.10%	0.14%	0.125%	A/A-	A3
2.1	0.15%	0.19%	0.175%	BBB+	Baa1
2.5	0.20%	0.24%	0.225%	BBB+	Baa1
2.8	0.25%	0.29%	0.275%	BBB	Baa2
3	0.30%	0.59%	0.450%	BBB/BBB-	Baa2/Baa3
4	0.60%	1.19%	0.900%	BB+/BB/BB-	Ba1/Ba2
5	1.20%	2.49%	1.850%	B+/B	Ba3
6	2.50%	4.99%	3.750%	B-	B1
7	5.00%	9.99%	7.500%	CCC-	B2/B3
8	10.00%+	–	15.000%	CC/C	Caa/Ca/C

Barclays Capital has relatively few, but usually larger, credit exposures. They also have significant credit exposures arising from money market, foreign exchange, derivatives, securities dealing and other similar products. These trading activities, which include the use of on- and off-balance sheet instruments, result in credit risk. The majority are referred to the Group Credit Committee or are sanctioned within Barclays Capital's risk management department in London or in its office in New York. Smaller credit exposures, are sanctioned and controlled by specialist departments and individual Barclays Capital business units under a hierarchy of credit exposure discretions.

Since Barclays Global Investors passes credit risk arising from investment transactions to its investor clients, it is excluded from this structure. However, the procedures for assessing such credit risk are similar to those undertaken elsewhere in the Group and fall under the overall supervision of the Group Governance and Control Committee.

Environmental Risk Management Unit, part of the credit risk management function, aims to protect the Group from material environmental costs. These costs may be direct (lender liability) or indirect (environmental issues that may impact on the viability of our borrowing customers). Potential reputational costs are also addressed. These would arise through the Group's association with companies or projects that may be perceived to be environmentally damaging.

Group Treasury is responsible for the monitoring and regulatory reporting of intra-group exposures under the EC Large Exposures Directive.

Risk mitigation

As the credit markets develop, Barclays is expanding the mechanisms used to manage credit risk, e.g. by the use of credit derivatives and securitisations. The primary objective is to reduce the uncertainty of returns from the credit portfolio. There will be greater opportunities to use these techniques as the credit markets develop. The cost of these transactions is generally treated as a deduction from the related category of income with any benefits being reflected in reduced credit risk provisions and reduced volatility of earnings.

The Group enters into master agreements with counter-parties whenever possible and obtains collateral where this is appropriate. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis.

Concentrations of credit risk, which arise through the Group's trading and non-trading activities, are presented in note 66 to the accounts.

Analysis of loans and advances

The following sections analyse loans and advances to banks and customers. The geographical analyses of the banking business are based on the location of the office from which the lendings are made. The trading business, which is international in nature, primarily constitutes settlement and reverse repo balances and has not been analysed geographically. This business is largely carried out in the UK and the United States.

Loans and advances to banks

The majority of loans and advances to banks are placings, amounting to £39,528m at 31st December 2001 (2000 £32,659m,1999 £36,080m) and includes reverse repo transactions. Also included are loans to banks and building societies, balances with central banks (excluding those balances which can be withdrawn on demand), inter-bank settlement accounts and federal funds sold.

Loans and advances to banks

	2001 £m	2000 £m	1999 £m
Banking business:			
UK	7,116	3,345	6,307
Other European Union	2,278	2,042	2,173
United States	930	2,056	2,118
Rest of the World	1,924	2,153	2,497
Total banking business	12,248	9,596	13,095
Total trading business	35,693	27,345	26,555
	47,941	36,941	39,650

The amounts shown are before the deduction of attributable provisions and interest in suspense.

Maturity analysis of loans and advances to banks

At 31st December 2001	On demand £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK	723	1,244	1,302	3,766	81	7,116
Other European Union	535	1,397	59	49	238	2,278
United States	12	342	489	87	–	930
Rest of the World	490	1,202	230	2	–	1,924
Total banking business	1,760	4,185	2,080	3,904	319	12,248
Total trading business	2,357	31,808	1,517	11	–	35,693
	4,117	35,993	3,597	3,915	319	47,941

At 31st December 2000	On demand £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK	392	1,463	985	398	107	3,345
Other European Union	248	1,526	63	151	54	2,042
United States	26	880	874	276	–	2,056
Rest of the World	318	1,414	417	4	–	2,153
Total banking business	984	5,283	2,339	829	161	9,596
Total trading business	1,110	22,607	3,628	–	–	27,345
	2,094	27,890	5,967	829	161	36,941

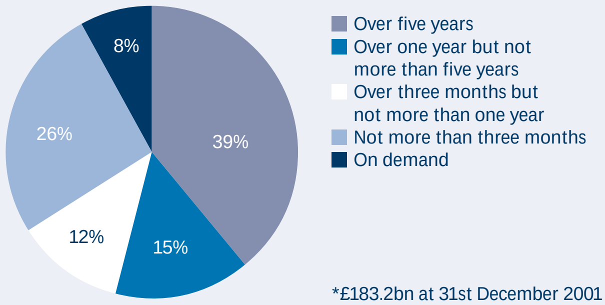
Interest rate sensitivity of loans and advances to banks

At 31st December 2001	Fixed rate £m	Variable rate £m	Total £m
Banking business:			
UK	3,450	3,666	7,116
Other European Union	1,772	506	2,278
United States	905	25	930
Rest of the World	1,575	349	1,924
Total banking business	7,702	4,546	12,248
Total trading business	21,274	14,419	35,693
	28,976	18,965	47,941

Loans and advances to customers

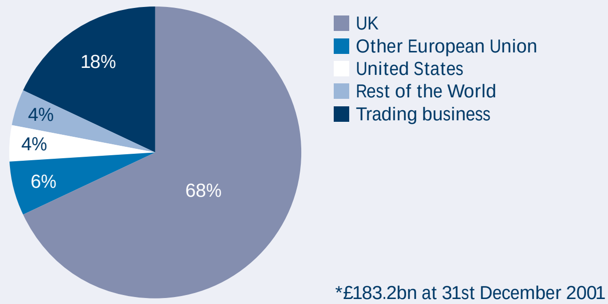
The Group provides lending facilities to corporate and personal customers in the form of loans, overdrafts and finance lease receivables. The amounts shown below are before deduction of attributable provisions and interest in suspense.

Maturity analysis of loans and advances to customers*



*£183.2bn at 31st December 2001

Geographic analysis of loans and advances to customers*



*£183.2bn at 31st December 2001

Maturity analysis of loans and advances to customers

At 31st December 2001	On demand (a) £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK						
Corporate lending	8,335	6,344	7,165	11,522	9,588	42,954
Other lending from UK offices (b)	2,533	6,447	6,559	10,155	55,606	81,300
Total UK	10,868	12,791	13,724	21,677	65,194	124,254
Other European Union	1,251	2,475	1,550	2,277	3,155	10,708
United States	–	1,237	1,541	2,348	1,488	6,614
Rest of the World	1,089	1,820	2,670	823	1,014	7,416
Total banking business	13,208	18,323	19,485	27,125	70,851	148,992
Total trading business	1,977	29,733	2,398	132	–	34,240
	15,185	48,056	21,883	27,257	70,851	183,232

At 31st December 2000	On demand (a) £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK						
Corporate lending	8,041	5,768	4,281	13,374	8,887	40,351
Other lending from UK offices (b)	2,545	5,928	6,153	10,141	50,196	74,963
Total UK	10,586	11,696	10,434	23,515	59,083	115,314
Other European Union	920	1,789	1,485	2,749	3,260	10,203
United States	23	716	1,387	2,223	2,027	6,376
Rest of the World	658	2,783	3,932	771	806	8,950
Total banking business	12,187	16,984	17,238	29,258	65,176	140,843
Total trading business	846	21,560	792	–	–	23,198
	13,033	38,544	18,030	29,258	65,176	164,041

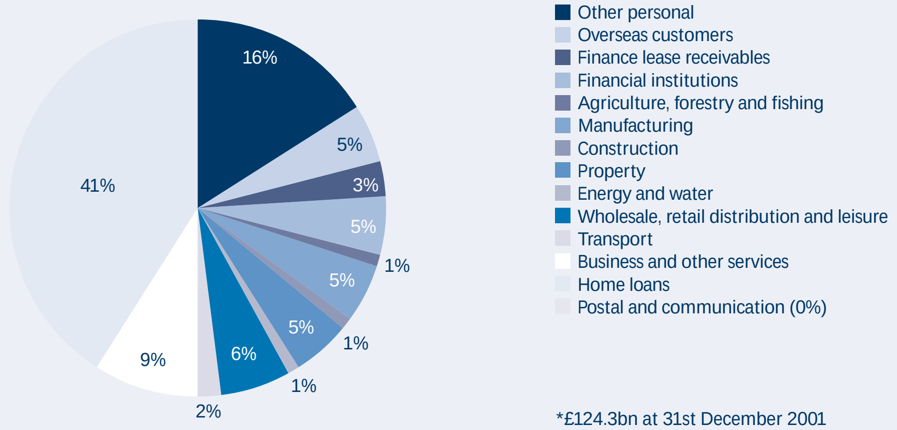
Notes
(a) Overdrafts are included in the ‘on demand’ category.

(b) Other lending from UK offices includes finance lease receivables.

Interest rate sensitivity of loans and advances to customers

At 31st December 2001	Fixed rate £m	Variable rate £m	Total £m
Banking business:			
UK	35,599	88,655	124,254
Other European Union	3,977	6,731	10,708
United States	1,418	5,196	6,614
Rest of the World	4,380	3,036	7,416
Total banking business	45,374	103,618	148,992
Total trading business	16,180	18,060	34,240
	61,554	121,678	183,232

Loans and advances to customers in offices in the UK – banking business*



*£124.3bn at 31st December 2001

Loans and advances to customers in offices in the UK – banking business

At 31st December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Financial institutions	5,616	4,215	4,118	1,839	2,258
Agriculture, forestry and fishing	1,626	1,689	1,693	1,612	1,726
Manufacturing	6,766	7,573	6,954	6,840	5,556
Construction	1,779	1,666	1,331	1,227	1,046
Property	5,600	5,130	3,689	3,205	2,927
Energy and water	1,153	1,120	613	668	586
Wholesale and retail distribution and leisure	7,571	7,531	6,455	6,778	5,895
Transport	1,894	1,353	1,270	1,164	875
Postal and communication	368	180	345	261	86
Business and other services	10,581	9,894	8,415	7,549	6,425
Home loans	50,945	47,235	18,316	16,580	15,937
Other personal	19,678	18,200	15,673	14,376	12,403
Overseas customers	6,472	5,024	4,711	3,056	3,421
	120,049	110,810	73,583	65,155	59,141
Finance lease receivables	4,205	4,504	5,094	5,279	5,635
	124,254	115,314	78,677	70,434	64,776

Loans and advances to customers in offices in other European Union countries – banking business

At 31st December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Financial institutions	500	436	178	220	215
Agriculture, forestry and fishing	240	303	223	109	19
Manufacturing	1,317	1,420	1,322	975	964
Construction	298	261	193	148	164
Property	241	182	144	182	237
Energy and water	282	372	145	114	114
Wholesale and retail distribution and leisure	283	140	207	323	378
Transport	318	172	119	133	184
Postal and communication	185	83	37	9	11
Business and other services	1,679	1,284	918	1,433	980
Home loans	3,871	4,436	1,029	932	670
Other personal	661	582	505	500	352
Overseas customers	685	381	462	358	304
	10,560	10,052	5,482	5,436	4,592
Finance lease receivables	148	151	494	503	485
	10,708	10,203	5,976	5,939	5,077

Loans and advances to customers in offices in the United States – banking business

At 31st December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Financial institutions	1,053	616	320	527	350
Agriculture, forestry and fishing	–	–	1	1	1
Manufacturing	1,553	1,123	727	592	325
Construction	24	–	–	12	5
Property	21	30	69	80	195
Energy and water	1,567	1,440	1,168	645	647
Wholesale and retail distribution and leisure	160	214	138	323	76
Transport	931	580	356	53	98
Postal and communication	66	88	166	383	240
Business and other services	901	2,174	1,000	1,471	1,138
Home loans	–	1	1	1	3
Other personal	267	6	58	7	25
Overseas customers	23	56	–	27	15
	6,566	6,328	4,004	4,122	3,118
Finance lease receivables	48	48	44	42	44
	6,614	6,376	4,048	4,164	3,162

Loans and advances to customers in offices in the Rest of the World – banking business

At 31st December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Loans and advances	7,384	8,920	8,316	2,883	2,980
Finance lease receivables	32	30	28	28	29
	7,416	8,950	8,344	2,911	3,009

Total loans and advances to customers

At 31st December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Banking business	148,992	140,843	97,045	83,448	76,024
Trading business	34,240	23,198	21,562	13,611	25,712
	183,232	164,041	118,607	97,059	101,736

Total loans and advances to customers

Barclays lendings are widely dispersed over customer categories within the UK, the main area of operation, and are also well spread geographically outside the UK. No one concentration of lendings, with the exception of home loans and other personal lendings in the UK, accounts for more than 10% of total Group lendings. Other than the UK, the United States is the only country to account for 10% or more of total Group lendings.

In the geographical analyses of lendings shown on pages 65 and 66, overseas customers are customers resident outside the country in which the lending business is based.

In addition to the lendings categorised as postal and communications in the UK and other geographical areas, exposure to the telecommunications sector is also included in overseas customers. Total loans and advances worldwide to this sector at 31st December 2001 amounted to £1.7bn (31st December 2000 £1.5bn).

Loans and advances in offices in the UK

Loans and advances within banking business activities increased by 8% to £124,254m (2000 growth of 47%). There was continued growth in unsecured personal lending and credit card advances, with the mortgage business continuing to benefit from a relatively strong housing market. Growth in non-personal lending included a 33% increase to Financial institutions (to £5,616m). Other growth in corporate lending was concentrated in larger middle market customers.

Loans and advances in offices in other European Union countries

Loans and advances within banking business activities increased by 5% to £10,708m. Increases across the region, of which a significant element related to mortgage lending, were partially offset by the sale of Banque Woolwich SA.

Loans and advances in offices in the United States and the Rest of the World

Business loans and advances in the United States grew by 4%. Rest of the world lendings were 17% lower than in 2000, with the reduction primarily arising in Japan.

Exposure to countries subject to International Monetary Fund (IMF) liquidity support programmes

Amounts outstanding, net of provisions, and commitments to counterparties in countries which make significant use of IMF liquidity support programmes were as follows:

At 31st December	2001 £bn	2000 £bn	1999 £bn
Europe			
Turkey	0.2	*	*
Asia			
Indonesia	0.1	0.1	0.1
South Korea	*	0.2	0.4
Thailand	*	0.1	0.1
	0.1	0.4	0.6
Latin America			
Argentina	0.3	0.9	*
Brazil	0.7	*	0.8
Mexico	*	*	0.9
	1.3	1.3	2.3

*Did not make significant use of IMF Liquidity support programmes at the end of the period.

The total was broken down as follows:

	2001 £bn	2000 £bn	1999 £bn
Banks	0.7	0.8	1.3
Governments/sovereigns	0.1	0.1	0.4
Corporates & project financings	0.5	0.4	0.6
	1.3	1.3	2.3

Provisions for bad and doubtful debts

Barclays policy is to provide for losses in the lending book when it is considered that recovery is doubtful. The provision is made up of two factors, a specific provision and a general provision. Risk managers continuously review the quality of their exposures based on their knowledge of the counterparty, industry trends and country of operation.

Specific provisions

Specific provisions are raised for:

» Individual counterparties when the Bank considers that the credit-worthiness of a borrower has undergone deterioration such that the recovery of the whole or part of an outstanding advance is in serious doubt.

» Homogeneous portfolios of lending where statistical models permit. These statistical models are consistent with the Group's policy of raising provision when recovery is doubtful. These provisions are raised in parts of Personal Financial Services, Woolwich, Barclays Private Clients, Barclaycard and Business Banking.

General provisions

General provisions reflect losses that, although not specifically identified, are known from experience to be present in a lending portfolio at the balance sheet date.

These provisions are adjusted at least half yearly by an appropriate charge or release of general provisions based on a statistical model. The accuracy of this model is periodically assessed against actual losses.

The general provision also takes into account the economic climate in the market in which the Group operates and the level of security held in relation to each portfolio.

Statistical models

Internal ratings are used to assess the credit quality of borrowers. Each internal rating corresponds to a probability of default (PD), which is the statistical probability of a customer defaulting within a 12 month period expressed as a percentage, i.e. the number of defaults per hundred customers of a similar type.

Default is deemed to be the event characterised by the failure of a counterparty to pay interest and/or principal on an obligation as and when it falls due. The PD is calculated by using manual or computer driven score-sheets validated by an analysis of the Group's own historic data. This internal rating can be derived from different sources depending upon the borrower, e.g. internal model or credit rating agency.

Where models are used they are based upon current customer personal and financial performance information as a predictor of future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

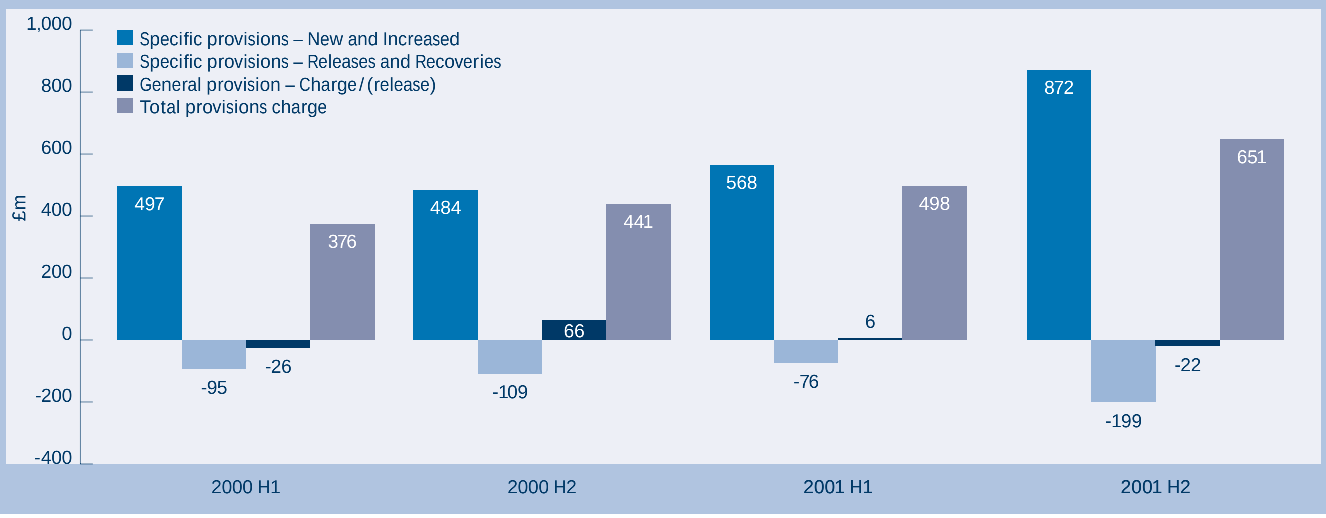
Treatment of interest on provided debt

If the collection of interest is doubtful, it is credited to a suspense account and excluded from interest income in the profit and loss account. Although interest continues to be charged to the customer's account, the suspense account in the balance sheet is netted against the relevant loan. Loans on which interest is suspended are not reclassified as accruing interest until interest and principal payments are up-to-date and future payments are reasonably assured. If the collection of interest is considered remote, interest is no longer applied.

Treatment of collateral assets acquired in exchange for advances

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the original advance updated as at the date of the exchange. Any subsequent impairment is accounted for as a specific provision.

Provision charge analysis

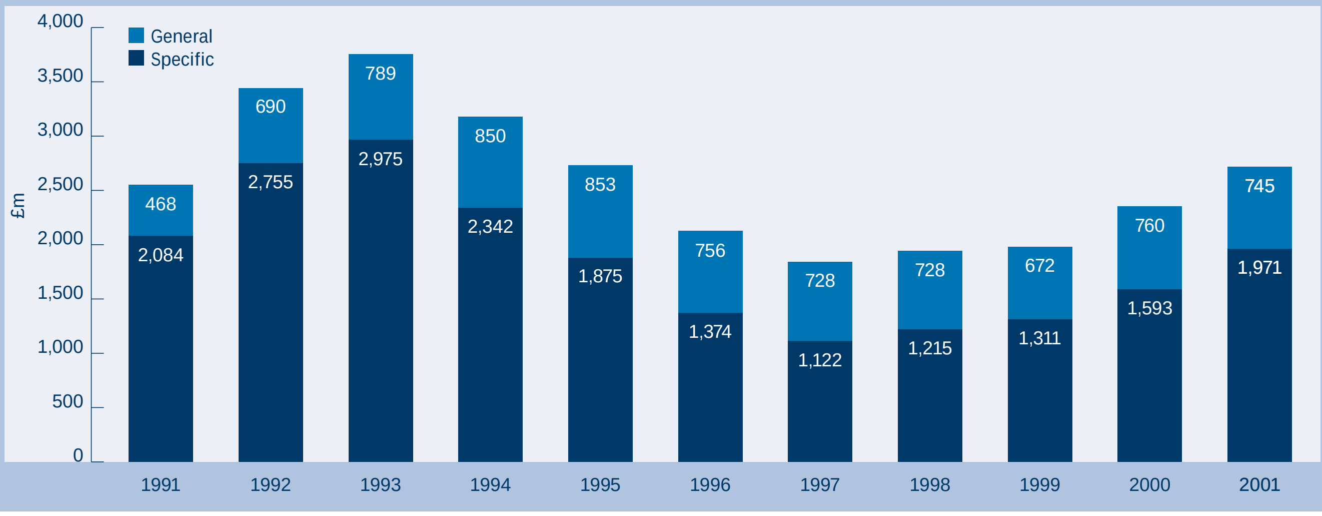


Analysis of provisions for bad and doubtful debts

	As at 31st December				
	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Specific provision*					
UK	1,605	1,343	1,083	937	801
Other European Union	89	112	131	220	253
United States	89	20	23	23	27
Rest of the World	188	118	74	35	41
Total specific provision	1,971	1,593	1,311	1,215	1,122
General provision	745	760	672	728	728
	2,716	2,353	1,983	1,943	1,850
Average loans and advances for the year (excluding trading business)	157,904	122,333	106,488	101,338	96,656
(including trading business)	223,221	176,938	147,139	145,749	136,581

*The geographic analysis of provisions is based on location of office.

Provision stock



Ratios

	As at 31st December				
	2001 %	2000 %	1999 %	1998 %	1997 %
Provisions at end of year as a percentage of loans and advances at end of year (excluding trading business):					
Specific provision	1.22	1.06	1.19	1.17	1.14
General provision	0.46	0.51	0.61	0.70	0.75
	1.68	1.57	1.80	1.87	1.89
Provisions at end of year as a percentage of loans and advances at end of year (including trading business):					
Specific provision	0.85	0.79	0.83	0.90	0.81
General provision	0.32	0.38	0.42	0.54	0.52
	1.17	1.17	1.25	1.44	1.33

Ratios

	Year ended 31st December				
	2001 %	2000 %	1999 %	1998 %	1997 %
Provisions charge as a percentage of average loans and advances for the year (excluding trading business):					
Specific provisions	0.74	0.64	0.60	0.49	0.25
General provisions	(0.01)	0.03	(0.02)	–	(0.02)
	0.73	0.67	0.58	0.49	0.23
Amounts written off (net of recoveries)	0.53	0.47	0.52	0.40	0.47
Provisions charge as a percentage of average loans and advances for the year (including trading business):					
Specific provisions	0.52	0.44	0.43	0.34	0.18
General provisions	0.00	0.02	(0.01)	–	(0.02)
	0.52	0.46	0.42	0.34	0.16
Amounts written off (net of recoveries)	0.37	0.32	0.38	0.28	0.33

Movements in provisions for bad and doubtful debts

	Year ended 31st December				
	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Provision at beginning of year	2,353	1,983	1,943	1,850	2,130
Acquisitions and disposals	46	119	(10)	–	(14)
Exchange and other adjustments	(1)	4	(13)	6	(38)
Amounts written off:					
UK	(814)	(595)	(546)	(520)	(450)
Other European Union	(36)	(45)	(44)	(45)	(94)
United States	(94)	(26)	(40)	(7)	(23)
Rest of the World	(29)	(17)	(21)	(9)	(14)
	(973)	(683)	(651)	(581)	(581)
Recoveries (analysed below)	142	113	93	176	126
Sub total	1,567	1,536	1,362	1,451	1,623
Provisions charged against profit					
New and increased specific provisions:					
UK	1,157	843	768	753	541
Other European Union	35	35	27	32	51
United States	173	27	45	11	12
Rest of the World	75	76	47	23	28
	1,440	981	887	819	632
Releases of specific provisions:					
UK	(87)	(55)	(115)	(96)	(174)
Other European Union	(10)	(17)	(22)	(32)	(36)
United States	(10)	(6)	(7)	(8)	(34)
Rest of the World	(26)	(13)	(15)	(15)	(15)
	(133)	(91)	(159)	(151)	(259)
Recoveries:					
UK	(106)	(100)	(85)	(156)	(111)
Other European Union	(5)	(6)	(4)	(4)	(6)
United States	(27)	(4)	(4)	(13)	(4)
Rest of the World	(4)	(3)	–	(3)	(5)
	(142)	(113)	(93)	(176)	(126)
Net specific provisions charge	1,165	777	635	492	247
General provision charge/(release)*	(16)	40	(14)	–	(20)
Net charge to profit	1,149	817	621	492	227
Provisions at end of year	2,716	2,353	1,983	1,943	1,850

* An analysis of the movement in general provisions is shown in note 18 to the accounts.

The geographic analysis of provisions is based on location of office.

Provisions for bad and doubtful debts

	Net specific provision for the year					Specific provisions at 31st December				
	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
UK:										
Banks and other financial institutions	(2)	7	10	11	(3)	5	7	9	14	5
Agriculture, forestry and fishing	6	6	4	(5)	–	13	11	7	4	5
Manufacturing	62	8	4	15	25	49	43	48	41	51
Construction	12	7	4	(7)	5	6	8	7	10	26
Property	3	1	(5)	(20)	(66)	8	8	8	12	29
Energy and water	1	8	–	–	3	10	8	2	2	2
Wholesale and retail distribution and leisure	44	21	34	(10)	12	60	42	42	18	10
Transport	6	2	4	(1)	3	6	4	4	2	5
Postal and communication	1	–	–	1	–	1	1	1	1	–
Business and other services	75	27	14	(7)	4	77	40	34	43	61
Home loans	8	10	5	(4)	8	60	61	39	35	44
Other personal	782	577	504	376	281	1,252	1,041	830	664	522
Overseas customers (a)	(34)	6	(22)	152	(16)	52	58	41	88	38
Finance lease receivables	–	8	12	–	–	6	11	11	3	3
	964	688	568	501	256	1,605	1,343	1,083	937	801
Foreign	201	89	67	(9)	(9)	366	250	228	278	321
	1,165	777	635	492	247	1,971	1,593	1,311	1,215	1,122

Analysis of amounts written off and recovered

	Amounts written off for the year					Recoveries of amounts previously written off				
	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
UK:										
Banks and other financial institutions	3	13	14	16	1	3	4	2	12	3
Agriculture, forestry and fishing	7	6	6	2	4	2	2	3	7	3
Manufacturing	65	30	20	28	20	11	16	12	12	7
Construction	16	8	12	12	12	2	2	3	5	7
Property	5	5	9	17	28	1	3	7	22	31
Energy and water	1	2	–	–	8	–	–	–	–	–
Wholesale and retail distribution and leisure	35	34	35	25	48	9	12	17	45	15
Transport	4	3	4	2	63	–	1	1	1	3
Postal and communication	–	–	1	–	–	–	–	–	–	–
Business and other services	57	33	43	36	32	9	11	12	27	16
Home loans	14	15	3	8	19	4	3	2	4	4
Other personal	599	435	363	254	193	29	28	24	21	20
Overseas customers (a)	2	7	31	120	20	35	17	1	–	–
Finance lease receivables	6	4	5	–	2	1	1	1	–	2
	814	595	546	520	450	106	100	85	156	111
Foreign	159	88	105	61	131	36	13	8	20	15
	973	683	651	581	581	142	113	93	176	126

Note
(a) includes amounts in 1998 in respect of Russian counterparties recorded in the UK.

Potential credit risk lendings

Potential credit risk lendings comprise non-performing lendings and potential problem lendings. The latter is defined as lendings where serious doubt exists about the customers' ability to meet existing repayment terms.

The US Securities and Exchange Commission (SEC) requires potential credit risk lendings to be analysed by categories which reflect US lending and accounting practices. These differ to some extent from those employed in the UK. In particular:

» US banks may write off problem lendings more quickly than is the practice in the UK. As a result, Barclays may report a somewhat higher level of lendings than if it had followed US practice and also a higher level of potential credit risk lendings.

» US banks typically stop accruing interest when loans are overdue by 90 days or more, or when recovery is doubtful. In accordance with the UK Statement of Recommended Practice on Advances, Barclays continues to charge interest to a doubtful customer's account for collection purposes, but the interest is suspended and excluded from interest income in the profit and loss account. This addition of interest continues until such time as its recovery is considered to be unlikely. While such practice does not affect net income in comparison with that followed in the United States, it again has the effect of increasing the reported level of potential credit risk lendings. The amount of this difference at 31st December 2001 was £75m (2000 £93m).

The table which follows presents an analysis of potential credit risk lendings in accordance with the SEC guidelines. Additional categories of disclosure are included, however, to record lendings where interest continues to be accrued and where either interest is being suspended or specific provisions have been raised. Normal US banking practice would be to place such lendings on non-accrual status. The amounts, the geographical presentation of which is based on the location of the office recording the transaction, are stated before deduction of the value of security held, the specific provisions carried or interest suspended.

Non-performing lendings

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Non-accrual lendings:					
UK	1,292	1,223	1,007	985	911
Other European Union	90	96	122	208	237
United States	306	119	47	38	53
Rest of the world	235	101	75	36	19
Accruing lendings where interest is being suspended:					
UK	386	351	326	266	234
Other European Union	30	36	19	26	27
United States	–	–	–	–	–
Rest of the world	145	109	91	92	126
Other accruing lendings against which provisions have been made:					
UK	1,044	873	423	457	408
Other European Union	20	71	42	74	91
United States	11	2	38	10	22
Rest of the world	43	76	50	50	4
Sub totals:					
UK	2,722	2,447	1,756	1,708	1,553
Other European Union	140	203	183	308	355
United States	317	121	85	48	75
Rest of the world	423	286	216	178	149
Accruing lendings 90 days overdue, against which no provisions have been made:					
UK	237	296	343	309	388
Other European Union	–	1	–	2	1
United States	–	–	–	–	–
Rest of the world	27	17	18	17	13
Reduced rate lendings:					
UK	4	6	6	7	37
Other European Union	–	–	–	–	–
United States	–	–	–	–	–
Rest of the world	1	–	2	–	–
Total non-performing lendings:					
UK	2,963	2,749	2,105	2,024	1,978
Other European Union	140	204	183	310	356
United States	317	121	85	48	75
Rest of the world	451	303	236	195	162
Total	3,871	3,377	2,609	2,577	2,571

Potential problem lendings

In addition to the data above, lendings which are current as to payment of principal and interest, but where there exists serious doubt as to the ability of the borrower to comply with repayment terms in the near future (potential problem lendings), were as follows:

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
UK	968	728	648	590	611
Other European Union	2	2	23	24	7
United States	369	313	5	4	45
Rest of the world	63	64	35	68	43
Total	1,402	1,107	711	686	706

Total provision coverage of credit risk non performing lendings

	2001 %	2000 %	1999 %	1998 %	1997 %
UK	74.9	72.9	81.1	78.4	72.9
Other European Union	78.6	72.1	94.5	95.2	92.4
United States	61.8	81.0	74.1	104.2	74.7
Rest of the world	59.2	64.7	50.4	45.1	66.7
Total	72.1	72.4	79.1	78.4	75.3

Total provision coverage of total potential credit risk lendings

	2001 %	2000 %	1999 %	1998 %	1997 %
UK	56.4	57.7	62.0	60.7	55.7
Other European Union	77.5	71.4	84.0	88.3	90.6
United States	28.6	22.6	70.0	96.2	46.7
Rest of the world	51.9	53.4	43.9	33.5	52.7
Total	52.9	54.5	62.1	61.9	59.0

The geographical coverage ratios reflect an allocation of general provision.

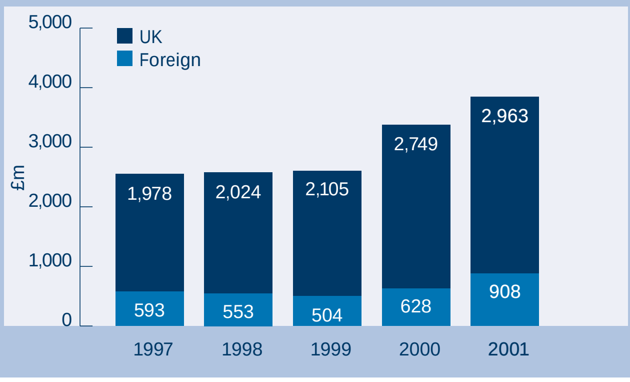
UK non-performing loans increased by £214m to £2,963m reflecting increases in both personal and corporate lending balances. UK potential problem loans increased by £240m, primarily relating to corporate lending positions. Non-performing loans in the Rest of the world were £451m, an increase of £148m, primarily reflecting the consolidation of Banco Barclays e Galicia SA.

US non-performing loans increased by £196m to £317m reflecting the inclusion of a small number of large loans where the expected loss is not likely to be significant. US coverage also reflects the practice of writing off non-performing loans earlier than is the practice in other geographic areas.

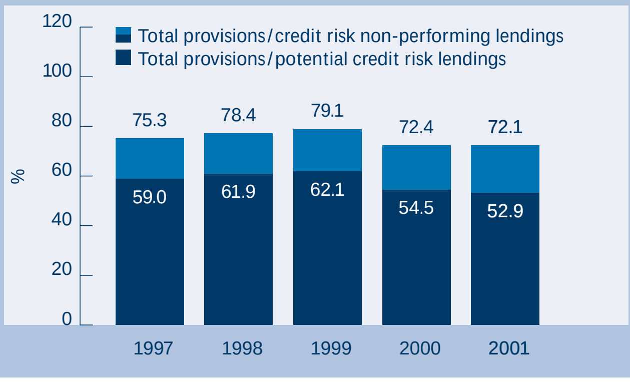
Interest forgone on non-performing lendings

	2001 £m	2000 £m	1999 £m
Interest income that would have been recognised under original contractual terms	279	246	165
Interest income included in profit	(50)	(48)	(45)
Interest forgone	229	198	120

Credit risk non-performing lendings



Provision ratios



Cross-border outstandings

The worldwide operations of the Group involve significant exposures in non-local currencies. These cross-border outstandings are controlled through a well-developed system of country limits, which are frequently reviewed to avoid concentrations of transfer, economic or political risks.

Cross-border outstandings, which exclude finance provided within the Group, are based on the country of domicile of the borrower or guarantor of ultimate risk and comprise loans and advances to customers and banks (including placings), finance lease receivables, interest bearing investments, acceptances, other monetary assets and on-balance sheet amounts arising from off-balance sheet financial instruments, denominated in currencies other than the borrower's local currency.

At 31st December 2001, the countries where Barclays cross-border outstandings exceeded 1% of assets were United States, Germany and France. In this context, assets comprise total assets, as presented in the consolidated balance sheet, and include acceptances. On this basis, assets amounted to £359,071m at 31st December 2001 (2000 £317,325m, 1999 £256,308m).

Cross-border outstandings exceeding 1% of assets

	As % of assets %	Total £m	Banks and other financial institutions £m	Governments and official institutions £m	Commercial industrial and other private sector £m
At 31st December 2001					
United States	2.3	8,294	4,878	–	3,416
Germany	2.3	8,218	8,031	1	186
France	1.2	4,203	3,088	22	1,093
At 31st December 2000					
Germany	2.4	7,505	6,829	554	122
United States	1.9	6,104	3,125	5	2,974
Japan	1.1	3,493	2,721	96	676
At 31st December 1999					
Germany	2.5	6,438	5,526	239	673
United States	2.1	5,281	2,036	11	3,234
France	1.6	4,022	3,274	202	546
Switzerland	1.1	2,756	2,129	–	627
Netherlands	1.1	2,740	1,761	6	973

Cross-border outstandings between 0.75% and 1% of assets

At 31st December 2001, Japan and Netherlands had cross-border outstandings of between 0.75% and 1% of total Group assets amounting to £5,774m. At 31st December 2000, Netherlands and France had cross-border outstandings of between 0.75% and 1% of total Group assets amounting to £5,745m. At 31st December 1999, Canada and Japan had cross-border outstandings of between 0.75% and 1% of total Group assets amounting to £4,320m.

Market risk management

Market risk is the risk of loss arising from changes in the level or volatility of market prices, which can occur in the interest rate, foreign exchange, equity and commodity markets. It is incurred as a result of both trading and asset/liability management activities.

The market risk management policies of the Group are determined by the Group Governance and Control Committee, which also recommends overall market risk appetite to Group Executive Committee. The Group's policy is that exposure to market risk arising from trading activities is concentrated in Barclays Capital.

The Group's banking businesses are also subject to market risk, which arises in relation to non-trading positions, such as capital balances, demand deposits and customer originated transactions and flows. The management of market risk in this context is discussed further under Treasury asset and liability management on page 79.

Trading activities

Trading includes transactions where Barclays Capital acts as principal with clients or with the market. For maximum efficiency, these two activities are managed together.

In anticipation of future customer demand, the Group 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 Group requirements. Barclays Capital takes principal positions in the interest rate, foreign exchange, equity and commodity markets based on expectations of customer demand or a change in market conditions.

Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. For a description of the nature of derivative instruments, see page 78.

In Barclays Capital, the formal process for the management of risk is through the Barclays Capital Risk Management Committee. Day to day responsibility for managing exposure to market risk lies with the Chief Executive of Barclays Capital, supported by a dedicated global market risk management unit that operates independently of the business areas.

Risk control

The Group uses a daily 'value at risk' measure as the primary mechanism for controlling market risk. Daily value at risk (DVaR) is an estimate, with a confidence level of 98%, of the potential loss which might arise if the current positions were to be held unchanged for one business day. Daily losses exceeding the DVaR figure are likely to occur, on average, only twice in every one hundred business days.

The Group Risk Oversight Committee allocates a total DVaR limit for the Group and delegates the day to day control and monitoring of market risk to the Group Market Risk Director, who sets limits for each business area. In the case of Barclays Capital, the overall limit is cascaded down to the trading business areas, subject to endorsement by the Group Market Risk Director and the Barclays Capital Risk Management Committee. Daily risk utilisation reports are produced across four main risk categories, namely interest rate (including credit spread risk), foreign exchange, equity and commodity risk.

As DVaR does not provide a direct indication of the potential size of losses that could arise in extreme conditions, Barclays Capital uses a number of complementary techniques for controlling market risk. Weekly firm-wide stress tests, based on both historical and hypothetical extreme movements of market prices, are produced. These are reviewed by the senior management of Barclays Capital at a risk meeting chaired by the Chief Executive of Barclays Capital. If the potential loss indicated by a stress test exceeds an agreed trigger level, then the positions captured by the stress test are reported to, and reviewed by, Group Risk Oversight Committee. Revenue losses are also subject to triggers, which can also lead to positions being reported to Group Risk Oversight Committee.

Analysis of market risk exposures

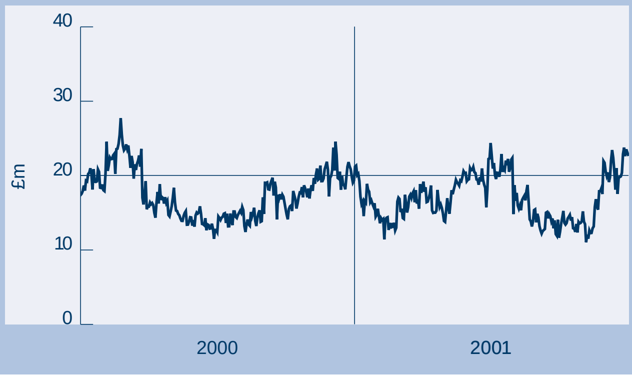
There has been no significant change in overall market risk exposure in 2001, although average DVaR was slightly lower than in 2000 (see table and chart below). Year-end DVaR for 2001 was £23.0m (2000 £19.0m).

Barclays Capital DVaR: Summary table for 2001 and 2000

	Twelve months to 31st December 2001			Twelve months to 31st December 2000		
	Average £m	High (a) £m	Low (a) £m	Average £m	High (a) £m	Low (a) £m
Interest rate risk	15.9	24.5	10.2	16.2	23.7	10.7
Foreign exchange risk	2.3	6.2	0.6	2.9	4.7	1.8
Equities risk	3.3	6.4	2.1	3.9	7.1	1.4
Commodities risk	1.7	4.3	0.6	1.4	3.5	0.9
Diversification effect	(6.3)			(6.9)		
Total DVaR	16.9	24.4	11.0	17.5	27.7	11.5

Note
(a) The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. A corresponding diversification effect cannot be calculated and is therefore omitted from the above table.

Total DVaR Daily exposures in 2000 and 2001



Risk measurement

Barclays Capital uses the historical simulation method for calculating DVaR. The length of the historical sample is two years. The DVaR figures in the above table and graph are based on the pre-enhanced historical simulation method as explained below.

In August 2000, Barclays Capital introduced an enhanced historical simulation methodology for calculating DVaR. The previous methodology segregated interest rate exposures into two categories: government and non-government. For risk measurement purposes, all non-government exposures were assumed to trade at LIBOR, and were therefore implicitly assumed to have the same price volatility as an interest rate swap.

The enhanced methodology maps interest rate exposures into eight categories: government, interest rate swaps and six credit grades for non-government exposures. The greater definition provided allows the system to discriminate between the market risk of holding bonds with different credit qualities, for example AAA securities as against non-investment grade securities. In particular, it provides a better measure of the effectiveness of hedging strategies such as shorting government bonds or swaps against non-government bond portfolios.

Since the introduction of the enhanced method, Barclays Capital has also continued to produce DVaR estimates using the old methodology. The impact of the change has been to increase reported DVaR by an amount which has averaged £2.0m. The impact has ranged from a reduction of £2.9m to an increase of £6.0m. It has not been possible to apply the new methodology retrospectively to daily positions prior to August 2000, and so the figures tabulated above are based on the old methodology. As at 31st December 2001, the total DVaR using the new methodology was £21.3m compared with £23.0m using the old methodology.

Barclays Capital recognises the importance of assessing the effectiveness of DVaR. The main approach employed is the technique known as back-testing, which counts the number of days when trading related losses are bigger than the estimated DVaR figure. For Barclays Capital as a whole there were no instances in 2001 of a trading revenue loss exceeding the corresponding DVaR.

Derivatives

The use of derivatives and their sale to customers as risk management products is 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 and exchange rates as part of its asset and liability management activities.

Barclays Capital manages the trading derivatives book as part of the market risk book. These include foreign exchange, interest rate, equity, commodity and credit derivatives. The policies over market risk management are outlined in the market risk management section on page 76.

The policy for derivatives that are used to manage the Group's own exposure to interest and exchange rate fluctuations are outlined in the treasury asset and liability management section on pages 79 to 82.

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, dealing profits, commissions received and other 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' (OTC) derivatives markets.

Exchange traded derivatives

The Group buys and sells exchange traded financial instruments, primarily financial futures and options on financial 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.

OTC traded derivatives

The Group buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange. These instruments range from commoditised transactions in directly observable 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, including the ability to net outstanding balances where the rules of offset are legally enforceable. For further explanation of the Group's policies on netting, see Accounting policies, on pages 106 to 111.

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.

Equity derivatives

The Group's principal equity related contracts are equity and stock index swaps and options (including warrants, which are 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. No principal amounts are exchanged.

An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

Commodity derivatives

The Group's commodity related contracts are mainly swaps and options on commodities such as oil price indices and precious and base metals price indices.

Credit derivatives

Credit derivatives are financial instruments that enable banks to manage credit risk without changing their underlying loan portfolios. The effect of a credit derivative is to transfer credit risk from one party, the protection buyer, to another party, the protection seller, who receives premium or interest related payments in return for contracting to make payments to the protection buyer. The payments are linked to the standing of a reference asset, which may be a security, a loan or an obligation on other derivative instruments. The term credit derivative may also be applied to cash instruments where repayment is linked to the credit standing of a reference asset.

Treasury asset and liability management

Assets and liabilities arise on the Group's balance sheet as a result of the product and customer propositions offered by Group businesses. The financial risks arising, comprising interest rate and exchange rate risks and liquidity risk which includes funding, and concentration risks, are actively managed by Group Treasury.

The Group's policy is to centralise all asset and liability management within Group Treasury to minimise earnings volatility and meet Group control standards. Group policies are set by the Group Treasury Committee, which is chaired by the Group Finance Director. The Group Treasury Committee sanctions financial risk limits across the Group and ensures compliance via a limit and control monitoring structure in collaboration with the local asset and liability committees.

Liquidity risk management

The Group's overall liquidity policy and control is the responsibility of Group Treasury and is managed to ensure that the Group can meet its current and future re-financing needs at all times and at acceptable costs. The Group's liquidity position was satisfactory at 31st December 2001. Liquidity management within the Group has two main strands. The first is day to day funding. This is managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of existing funds as they mature or are withdrawn to satisfy demands for additional borrowings by customers. The second is maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow. In order to avoid reliance on a particular group of customers or market sectors the distribution of sources and 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.

A substantial portion of the Group's assets in the UK, and in certain other retail banking areas, are funded from 'core retail deposits'. These important sources of liquidity are mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts are repayable at short notice, maintaining a broad base of customers, both numerically and by depositor type, helps to protect against unexpected fluctuations. Such accounts form a stable deposit base for the Group's operations and liquidity needs.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider and product. There have been a number of significant market events over recent years including the Russian crisis, Long Term Capital Management, Y2K and the Asian crisis all of which have resulted in a short-term flight to quality in financial markets. The Group has benefited in all cases. The ability to raise funds is dependent to some degree on maintaining the bank's credit rating, although, except at extremes, a credit downgrade is likely to affect only the price at which funding is available rather than the volume that can be raised. Many factors contribute to the credit rating process including assessment of management capability, and the quality of the corporate governance and risk management processes. The Group considers one of the most important factors towards preserving its strong credit rating, which is a core ambition, is by maintaining a strong capital base and regulatory ratios.

There are no terms, conditions or circumstances of which the Group is currently aware that could require early repayment of, or impair the Group's ability to raise, short term funding. Where investors have the right of call on debt securities in issue at certain dates, the maturity date is taken to be the first call date. Investors do not have the ability to call undated, dated loan capital or other capital instruments, except where stated in note 36 on page 140. Liquidity management also includes control over asset maturities and the volume and quality of liquid assets and short-term funds. Additionally, in evaluating the Group's liquidity position, Group Treasury takes into account undrawn lending commitments; the usage of overdraft facilities and the possible impact of certain contingent liabilities such as standby letters of credit and guarantees. In order to maximise the benefits of knowledge gained in overseas markets, day to day liquidity is the responsibility of local treasury management in each territory within the parameters set by Group Treasury and subject to regular reports to Group Treasury. Local asset and liability management committees comprising senior local executives also review liquidity management depending on the size and complexity of the treasury operation.

Details of the contractual cash obligations and commercial commitments of the Group are given on page 82.

Monitoring and reporting arrangements

Monitoring and reporting take the form of cash flow measurement based on principles agreed by the UK Financial Services Authority. Each operation is required to maintain sufficient access to funds, in terms of maturing assets and proven capacity to borrow in the money markets. Special attention is paid to cash flow projections for the next day, week and month as these are key periods for liquidity management. These positions are reviewed daily to prevent problems developing in the future. In addition emphasis is placed on the need to monitor unmatched medium-term assets and the level and type of undrawn commitments.

Interest rate exposure

Interest rate risk arising from the UK banking operations is managed by Group Treasury, which is also responsible for the overall Group position. In managing the non-trading positions inherent in the Group's balance sheet, consideration is given to the substantial liabilities represented by interest free deposits, other interest free or fixed rate liabilities as well as the Group's shareholders' funds. The positions arising from these balances are managed by the maintenance of a portfolio of assets with fixed interest rates over several years, including loans and advances to customers, debt securities and interest rate swaps and options. Similarly, mismatches of fixed rate assets and liabilities are managed through the use of interest rate swaps and other derivatives. Care is taken to ensure that the management of the portfolio is flexible, as market circumstances and customer requirements can rapidly change the desirable portfolio structure.

International banking operations also incur interest rate risk. Policies for managing this risk are agreed between Group Treasury and Group Market Risk Policy Unit and are applied through Asset and Liability Management Committees (ALCOs). Guidance on the scope and constitution of ALCOs is provided by Group Treasury, who maintain regular contact with the businesses on risk management and control issues. Compliance with the policy is controlled via a comprehensive financial risk reporting framework including interest rate gap limits or, where more appropriate, value at risk limits issued by Group Market Risk Policy Unit.

These limits allow banking books to be managed by local treasury operations in an orderly fashion, either through Barclays Capital managed trading outlets or, where necessary, through local markets.

The total Group exposure, excluding Barclays Capital interest rate risk, is shown in the form of an interest rate repricing table on page 146. This summarises the repricing profile of the Group's assets, liabilities and off-balance sheet exposures at 31st December 2001 and also reflects the non-trading hedges referred to above. This table can be used as the basis for the assessment of the sensitivity of the Group's earnings to interest rate movements, although allowance is also made for other factors such as asset and liability currency composition and customer behaviour (e.g. early prepayment of loans). As at 31st December 2001, the Group's expected earnings in 2002 would not be significantly affected either by a hypothetical immediate and sustained 1% increase or decrease in interest rates.

Foreign exchange exposure

Corporate and retail banking businesses incur foreign exchange risk in the course of providing services to their customers. The part of this risk that arises in UK operations is transferred to and managed by Barclays Capital. In the case of the international operations, Group Market Risk Policy Unit allocates modest foreign exchange open position limits to facilitate the management of customer originated flows. Exposures are reported daily to Group Market Risk Policy Unit and Group Treasury. As at 31st December 2001, aggregate DVaR of these businesses for foreign exchange rate risk was £0.2m (2000 £0.2m).

Management of foreign currency investments,

Non-trading positions in foreign currencies arise from the currency investments that the Group makes in its overseas businesses. The Group's policy is to manage the currency balance of the funding, financing these investments so as to limit the effect of exchange rate movements on the Group's risk asset ratios. The management of funding investments in overseas branches, subsidiary, associated undertakings and joint ventures is carried out and reviewed by Group Treasury. The principal structural currency exposures of the Group are set out on page 147.

These positions, together with the currency composition of tiers 2 and 3 capital and minority interests in tier 1 and tier 2 capital, ensure that movements in exchange rates have little impact on the Group's risk asset ratios. However, exchange rate movements do have an impact on reserves (see Consolidated statement of changes in reserves). With the positions in place at 31st December 2001, a hypothetical increase of 10% in the value of sterling against all currencies would have led to a fall of some £146m in reserves (2000 £68m).

Hedging

Risk management activities employ interest rate swaps, currency swaps and other derivatives that are designated as hedges.

The following table provides examples of certain activities undertaken by the Group, together with the related market risks and the types of derivatives that may be used in managing such risks.

Activity	Risk	Type of hedge
Fixed rate lending and fixed rate investment.	Reduced earnings due to an increase in interest rates.	Pay fixed interest rate swaps and buy interest rate caps.
Fixed rate funding (e.g medium-term note issuance).	Reduced earnings due to a fall in interest rates.	Receive fixed interest rate swaps and buy interest rate floors.
Firm foreign currency commitments (e.g. asset purchases and sales).	Reduced earnings due to changes in exchange rates between arranging a transaction and completion.	Foreign currency transactions.
Managing the Group's risk asset ratios.	Reduced risk asset ratio due to strengthening of foreign currency against sterling.	Currency swaps.

The hedge transactions that are linked to these activities are centralised within Group Treasury and the exposure is then passed to the market mainly via independently managed dealing units within Barclays Capital who treat these transactions as part of their normal trading activities, and also via third parties. Risks arising in the Group's other banking operations are managed in a similar way.The disclosure that follows relates to derivative components of the Group's hedging programme transferred to the market via internal or external counterparties.

The reported figures do not take account of underlying balance sheet items being hedged, the net interest income thereon or their mark to market values, excluding those businesses, within Barclays Capital, where the risk is managed by DVaR.

Interest rate swaps and cross currency interest rate swaps that are used in the management of the non-trading exposures are shown in the table below. These figures are the weighted average pay fixed rates and receive fixed rates by maturity date and nominal amount at 31st December 2001.

The nominal amounts below include £5,423m and £167m, in respect of sterling and non-sterling basis swaps respectively. Basis swaps are swaps where both payable and receivable legs are variable. In managing the non-trading exposures relating to capital balances and demand deposits, both on-balance sheet and derivative positions are held.

The net effect of the derivative positions, in isolation, on net interest income resulted in a credit of £122m (2000 debit of £5m). This included a credit of £93m (2000 debit of £70m) and credits of £29m (2000 £65m) for interest rate and exchange rate derivatives respectively.

The weighted-average receive variable and pay variable rates by reset maturity date and nominal amount at 31st December 2001 were as follows:

	Sterling denominated contracts				Non-sterling denominated contracts			
	Pay fixed		Receive fixed		Pay fixed		Receive fixed	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Maturity date								
Not more than three months	1,054	6.79	2,118	6.07	698	3.25	57	5.27
Over three months but not more than six months	1,145	6.46	1,220	7.02	43	3.91	292	4.12
Over six months but not more than one year	3,775	6.47	2,388	5.81	1,461	6.10	288	5.57
Over one year but not more than five years	14,847	6.07	18,977	6.01	2,362	5.79	2,136	5.10
Over five years	1,902	6.60	4,641	6.21	1,167	5.23	3,626	7.02
	22,723	6.24	29,344	6.07	5,731	5.43	6,399	6.16

The weighted-average receive variable and pay variable rates by reset maturity date and nominal amount at 31st December 2001 were as follows:

	Sterling denominated contracts				Non-sterling denominated contracts			
	Receive variable		Pay variable		Receive variable		Pay variable	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Reset maturity date								
Not more than three months	19,730	4.37	27,062	4.58	4,787	3.22	6,251	3.24
Over three months but not more than six months	8,416	4.19	7,705	4.15	1,111	4.08	315	3.34
	28,146	4.32	34,767	4.48	5,898	3.38	6,566	3.24

Additional information on liquidity management

The tables below give details of the contractual obligations and commercial commitments of the Group as at 31st December 2001, as required by a recent interpretive release issued by the SEC. This and other requirements are described in more detail on page 84.

Contractual cash obligations

	Payments due by period				
	Less than one year	One to three years	Four to five years	After five years	Total
Long term debt	196	201	–	4,536	4,933
Capital lease obligations	12	25	31	98	166
Operating leases	163	338	358	2,230	3,089
Unconditional obligations to purchase goods and services obligations	121	193	154	310	778
Other long term obligations	199	–	–	–	199
Total contractual cash obligations	691	757	543	7,174	9,165

The table above excludes deposits and other liabilities taken in the normal course of banking business and short term and undated liabilities. The maturity of deposits by banks is given in Note 28, customer accounts in Note 29, and debt securities in issue in Note 30.

Other commercial commitments

	Amount of commitment expiration per period				
	Less than one year £m	One to three years £m	Four to five years £m	After five years £m	Total amounts committed £m
Acceptances and endorsements	2,438	15	2	5	2,460
Guarantees and assets pledged as collateral security	9,856	1,930	2,316	724	14,826
Other contingent liabilities	5,820	873	267	353	7,313
Documentary credits and other short-term trade related transactions	397	–	–	–	397
Forward asset purchases and forward forward deposits placed	5	–	1	3	9
Undrawn note issuance and revolving underwriting facilities	–	–	–	19	19
Undrawn formal standby facilities, credit lines and other Commitments to lend	77,120	11,049	8,520	2,803	99,492
Total	95,636	13,867	11,106	3,907	124,516

Management of operational and other risks

In addition to credit, market and treasury risks, Barclays faces a number of other risks. These risks are controlled and managed within the overall risk management framework under the leadership of the Group Risk Director.

Operational Risk Management

Operational risk, which is inherent in all business activities, is the direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events. It can occur in any of the Group's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud.

The Group manages this risk within an overall governance and control strategy determined by the Group Governance and Control Committee and implemented via the Group Operational Risk Framework. The management of this strategy is supported by Group Operational Risk, Group IT Risk, Group Business Continuity Management, Group Legal, Group Compliance, Group Fraud Prevention, Group Finance, Group Premises Related Risk and Group People Related Risk Functions. This strategy is implemented within/by each business unit and monitored at Group level. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied.

It is recognised that such risks can never be entirely eliminated and that the cost of controls in minimising these risks may outweigh the potential benefits. However, where required, the Group continues to invest in risk management and mitigation such as business continuity management and incident management. Where appropriate this is supported by risk transfer mechanisms such as insurance. Independent assessment of the effectiveness of the management of operational risk is undertaken by the Internal Audit function.

Compliance risk management

The Group is subject to a comprehensive supervisory and regulatory structure in the UK, the European Union, the US, Asia-Pacific and in the many other countries around the world in which it operates.

Compliance risk arises from a failure or inability to comply with the laws, regulations or codes applicable to the financial services industry. Non-compliance can lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Responsibility for this risk lies with the Group Chief Executive and the Business Heads, who are ultimately accountable to the Board. They are supported in the discharge of their responsibilities by the Group Compliance Director, the Compliance Directors in each of the businesses and the Group Compliance function.

Legal risk management

The purpose of the Legal Function is to:

1) Support the Barclays businesses to deliver the Group strategy, both in terms of what we do and how we do it – our beliefs, practices and behaviours; and

2) Identify and (in conjunction with business management) manage the legal risks of Barclays. In this context, "Legal Risk" means any of the following types of risk:

» the risk that Barclays businesses will not be conducted in accordance with applicable laws and regulations;

» the risk that contractual arrangements will either i) not be enforceable as intended or ii) will be enforced against Barclays in an unexpected and adverse way;

» the risk that the tangible and intangible property of Barclays (such as its trade names and copyrights) will not be adequately protected from infringement; and

» the risk that Barclays will be liable for damages to third parties harmed by the conduct of its business.

The Group identifies and manages legal risk through effective use of its internal and external legal advisers. The Group General Counsel has ultimate responsibility for identifying, monitoring and providing support necessary to identify, manage and control legal risk across the Group.

Tax risk management

Tax risk is the risk of loss or increased charges associated with changes in, or errors in the interpretation of, taxation rates or law. Responsibility for control of this risk lies with the Group Taxation Director.

Critical accounting policies

On 12th December 2001, the US Securities and Exchange Commission issued a release regarding disclosure about critical accounting policies.

The Group's key accounting policies and information about the estimation techniques used to enable the accounting policies to be applied are set out on pages 106 to 111. UK accounting standards require that the Group adopt the accounting policies and estimation techniques that the Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's state of affairs, profit and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results. The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required general credit risk provision level. Further information on credit risk provisioning is set out on page 68 of the Financial review. In addition, the profile of the amortisation of goodwill would be different if a useful economic life longer or shorter than 20 years were used. The application of other accounting policies, including measuring the shareholders' interest in the retail long term assurance fund, impairment, debt securities and equity shares, pension and other post retirement benefits, non credit risk provisions and derivatives, require the use of estimation techniques that involve making assumptions about future market conditions which could impact on the timing and amounts recognised in the profit and loss account and balance sheet. Differences between UK GAAP and US GAAP accounting principles are set out in note 63.

US Securities and Exchange Commission (SEC) interpretive release

On 22nd January 2002, the SEC issued a release relating to disclosure requirements for the Financial review section of the Annual report.

The areas covered by the release are:

» Liquidity, including off balance sheets arrangements
» Energy and other OTC commodity trading
» Transactions with related and other non-independent parties

Liquidity risk management is discussed on page 79 of the Financial Review within 'Treasury asset and liability management' and further details of contractual cash obligations and other commercial commitments are set out on page 82. Off balance sheet arrangements are included within the explanations of the Group's use of special purpose vehicles on page 85.

Energy and other OTC commodity trading are discussed below. Transactions with related and other non-independent parties are addressed on page 86.

Energy and other OTC commodity trading

Barclays Capital delivers a fully integrated service to clients for base metals, precious metals, energy products (covering oil and oil-related products) and associated derivative contracts (that include non-exchange traded contracts) accounted for at fair value. Structured products are also developed and offered in respect of these commodities. The total commodities business (including exchange trading) contributed £38m to dealing profits (2000 £24m) and resulted in assets of £1,236m in respect of physical commodities positions (2000 £1,001m) and net liabilities of £45m (2000 £120m) relating to the fair value of derivative contracts.

The fair value of physical commodities positions is determined directly through observing market prices. Fair value adjustments are made to reflect the cost of exiting illiquid or significant positions.

In common with all derivatives, the fair value of commodity derivative contracts 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 determined either directly through observing market prices or through modelling cash flows using appropriate financial-markets pricing models. Pricing models are independently validated with reference to market quotes, price sharing with other institutions, and with reference to prices achieved in recent dealing activity.

The effect of discounting expected cash flows back to present value is achieved by constructing discount curves from the market price of observable interest rate products, such as deposits, interest rate futures and swaps. In addition, the Group maintains fair value adjustments reflecting the cost of credit risk (where this is not embedded in the fair value), hedging costs not captured in pricing models, future administration costs associated with ongoing operational support of products as well as adjustments to reflect the cost of exiting illiquid or significant positions. The use of different pricing models and assumptions could result in significantly different estimates of fair value for these positions.

The tables on page 85 analyse the fair value of the commodity derivative contracts at 31 December 2001 by movement over time, source of fair value and investment grade of counterparty.

Movement in fair value of commodity positions

	Total £m
Fair value of contracts outstanding at 31st December 2000	(120)
Contracts realised or otherwise settled during the period	133
Fair value of new contracts entered into during the period	(44)
Other Changes in fair value	(14)
Fair values of contracts outstanding at 31st December 2001	(45)

Source of fair value – commodities

	Fair Value of Contracts at 31st December 2001				
	Maturity less than one year	Maturity one to three years	Maturity four to five years	Maturity over five years	Total fair value
Prices actively quoted	(35)	(14)	(4)	–	(53)
Prices provided by other external sources	(2)	2	5	(1)	4
Prices based on models and other valuation methods	–	(8)	(1)	13	4
Total	(37)	(20)	–	12	(45)

Analysis of fair value by counterparty investment grade – commodities

	Total value £m
A- to AAA	(73)
BBB to BBB+	3
Below Investment grade	25
Total	(45)

Special Purpose Vehicles

Special Purpose Vehicles (SPVs) are entities that are typically set up for a specific purpose and generally would not enter into an operating activity nor have any employees. The most common form of SPV 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 SPV. These vehicles form an integral part of many financial markets, and are important to the development of the European securitisation market and functioning of the US commercial paper market.

An important feature of financial accounts prepared under UK GAAP is that they are required to present a true and fair view, which includes reflecting the substance of the transactions and arrangements and not just the legal form.

Accordingly, the substance of any transaction with an SPV forms the basis for the treatment in the Group's financial statements. When a Group company has transferred assets into an SPV, these assets should only be derecognised when the criteria within Financial Reporting Standard (FRS) 5 (Reporting the substance of transactions) are fully met.

An SPV is consolidated by the Group either if it meets the criteria of FRS 2 (Accounting for subsidiaries), or if the risk and rewards associated with the SPV reside with the Group, such that the substance of the relationship is that of a subsidiary. Financial data relating to entities consolidated on this latter basis is given in note 60 on page 162.

The Group, in the ordinary course of business, and primarily to facilitate client transactions, has helped establish SPVs in various areas which are described below, along with their UK GAAP treatment:

Commercial paper conduits

The Group provides its clients with access to liquidity through the use of asset backed commercial paper programmes. These programmes involve the sale of financial assets by clients to entities which are, in effect, commercial paper conduits that then issue commercial paper to fund the purchases. The financial assets acquired by the conduits, which totalled £17,624m at 31st December 2001, normally take the form of consumer or trade receivables. Of the above amount, assets held by the conduits which have been originated by the Group amounted to £881m and have been reported on the Group's balance sheet. The remainder represents client assets in which the Group has no interest and which are not reported on the Group's balance sheet at 31st December 2001. Certain administrative activities and the provision of liquidity and credit facilities to the programmes are performed by the Group under arms length contracts that it, or the conduit's independent board of directors, can terminate. Fees received by the Group for performing these services are recorded in fees and commissions when earned.

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 SPVs, often using credit derivative contracts. The assets are funded by issuing securities with varying terms. In accordance with FRS 5, the Group does not recognise the assets and liabilities of these vehicles in its balance sheet when substantially all the securities that represent the risks and rewards associated with the SPV have been sold to third parties. Otherwise these are recognised in full. As at 31st December 2001, the Group had recognised assets of £2,973m in respect of these transactions. Assets no longer recognised amounted to £1,212m at that date. Details of the amounts consolidated are given in note 60 on page 162.

Financing transactions

The Group has relationships with numerous SPVs to provide financing to clients or to enable the placing of clients' surplus funds with the Group. These surplus funds are in all cases included as liabilities in the balance sheet. These relationships include arrangements to fund the purchase or construction of specific assets (most common in the property industry). The use of an SPV to isolate cash flows and assets is common in the banking industry to enable the client to minimise its funding cost or maximise its investment returns and the bank to have access to specific collateral. Any financing relationships are entered into under normal lending criteria, and subject to the Group's credit sanctioning process. The exposures arising from the lendings are included in either loans and advances to customers and banks or debt securities and equity shares. Exposures in the form of guarantees or undrawn credit lines are included within commitments.

The Group has used SPVs to securitise some of its retail lending portfolio. Securitisation primarily involves the sale of receivables originated by the lending business. The SPVs concerned have been consolidated in accordance with FRS 5 and details are included in notes 17 and 60 on pages 126 and 162.

Fund management

As one of the world's largest institutional asset managers, the Group provides asset management services to a large number of investment vehicles on an arms length basis and at market terms and prices. The majority of these vehicles are investment funds that are owned by a large and diversified number of investors.

In addition there are various partnerships, funds and open-ended investment companies that are used by a limited number of independent third parties to facilitate their tailored private equity, debt securities or hedge fund investment strategies. These vehicles have assets under management of £1,078m. The Group has acquired interests in these vehicles, which are included within debt securities or equity shares, but the vehicles are not consolidated because the Group does not own either a significant portion of the equity, or the risks and rewards inherent in the assets.

Employee Compensation Trusts

The Group uses trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures and any equity of the Group held by them is disclosed in note 25 on page 133.

Transactions with related and other non-independent parties

Other non-independent parties are persons or entities that are able to negotiate transactions on an other than arms length basis but do not meet the definition of a related party. The Group is not aware of any relationships or transactions with such parties that would materially affect its financial position or results. Transactions with related parties are disclosed in note 56 on page 160.