

# The Results

## Barclays PLC Annual Report 2001

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This document contains certain forward-looking statements within the meaning of Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. These forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including UK domestic and global economic and business conditions, market related risks such as changes in interest rates and exchange rates, the policies and actions of regulatory authorities, changes in legislation and the impact of competition, a number of which are beyond the Group's control. As a result, the Group's actual future results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. For a discussion of some of the factors that may cause actual future results and developments to differ materially from these forward-looking statements, see Risk factors on page 89. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. Barclays does not undertake to update forward-looking statements to reflect any changes in the Group's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any further disclosures Barclays may make in documents it files with the US Securities and Exchange Commission.

## Economic and monetary environment

### European Economic and Monetary Union (EMU)

The changes required to deal with the introduction of euro notes and coins on 1st January 2002, and the demise of the eurozone currencies were delivered successfully.

### United Kingdom entry to EMU

Barclays is maintaining a prudent planning programme to validate and develop further its existing plans and is conducting feasibility studies with selected suppliers and partners.

Given the considerable uncertainty that continues to surround whether and when the UK may enter, it has not been possible to draw any definitive conclusions as to the final overall costs of preparing retail systems and operations.

Barclays incurred minimal expenditure during 2001 with respect to any decision to introduce the euro in the UK. No significant incremental costs are expected in 2002.

## Supervision and regulation

### UK

During 2001, the UK Government has completed a major overhaul of the UK financial regulatory system including the creation of a new single statutory regulator, the Financial Services Authority ("FSA"), which is now responsible for supervising the full range of financial business, including deposit-taking business, securities and other investment business and insurance business.

The cornerstone of this new regime is the Financial Services and Markets Act 2000 ("FSMA 2000") which came into force on 1st December 2001 (a date known as "N2") on which date the FSA also received its new regulatory powers. The FSMA 2000 replaces much existing legislation, including the Financial Services Act 1986, the Banking Act 1987 and the Insurance Companies Act 1982 under which banks, insurance companies and other financial services firms have been authorised and supervised.

The FSA has now replaced the self-regulatory organisations ("SROs") and the Bank of England as the single statutory regulator of all regulated activities in the UK. However, the Bank of England retains its monetary policy role and is responsible for the overall stability of the financial system.

Under the FSMA 2000, the FSA is required to pursue four statutory objectives to:

- 1) Maintain market confidence in the UK financial system;
- 2) Promote public awareness and understanding of the financial system;
- 3) Secure an appropriate degree of protection for consumers whilst recognising the consumers' own responsibilities; and
- 4) Reduce the scope for financial crime.

In addition to pursuing these statutory objectives, the FSA is also required to take into account a number of factors including using its resources in the most efficient way, taking into account the international character of financial services and the desirability of maintaining the UK's competitive position and facilitating competition between those subject to regulation by the FSA.

The FSA has also consulted widely on and issued a new unified Handbook of rules and guidance for all financial services firms, replacing the individual rulebooks of the SROs and the FSA's Banking Supervisory Policy guide. Whilst certain parts of the Handbook have yet to be finalised (in particular the specialist sourcebooks, such as mortgages and credit unions), the majority of the new rules and regulations came into force on N2, subject to certain transitional provisions.

In its role as supervisor, the FSA is seeking to ensure the safety and soundness of financial institutions (in fulfilment of the first and third objectives above) with the aim of strengthening, but not ensuring, the protection of customers. Barclays Bank PLC is authorised under the FSMA 2000 to carry on regulated activities within the UK and is subject to consolidated supervision by the FSA.

The Government has also announced that the scope of authorisation under the FSMA will be increased by the addition of regulated mortgages, mortgage advisers and general insurance to the list of regulated activities by 2004.

The FSA's continuing supervision of financial institutions authorised by it is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, including the bank's reporting accountants at the FSA's request, visits to banks and regular meetings with management to discuss issues such as performance, risk management and strategy. Under the FSA's new risk-based approach to supervision, the starting point for the FSA's supervision of all financial institutions is based on a systematic analysis of the risk profile for each authorised firm. The FSA is in the process of adopting a homogenous risk, process and resource based approach to its supervisory responsibilities (known as the ARROW model) and much of the information that the FSA will require will be used to calculate a firm's individual minimum capital ratio. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy (see Capital resources on page 54), limits on large exposures to individual entities and groups of closely connected entities, and liquidity.

From N2, banks, insurance companies and financial institutions in the UK are subject to a single financial services compensation scheme (the "Financial Services Compensation Scheme") where an authorised firm is unable or is likely to be unable to meet claims made against it due to its financial circumstances. This single scheme replaces the Deposit Protection Board Scheme, the Investors Compensation Scheme and the Policyholders Protection Scheme.

Eligible claimants under the Financial Services Compensation Scheme may make claims against the Scheme in the event of an authorised firm's default and may receive compensation if their claim is a protected claim. Different levels of compensation are available to eligible claimants depending upon whether the protected claim is in relation to a deposit, a contract of insurance or protected investment business. The manager of the Scheme is able to make an offer of compensation or, in respect of insurance contracts, offer to continue cover or provide assistance to an insurance undertaking to allow it to continue insurance business in accordance with the rules of the Scheme.

Most deposits made with branches of Barclays Bank PLC within the European Economic Area ("EEA") which are denominated in sterling or other EEA currencies (including the euro) are covered by the Scheme. Most claims made in respect of designated investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member State.

The Scheme establishes the maximum amounts of compensation payable in respect of protected claims: for eligible protected deposit claims, this is £31,700 (100% of the first £2,000 and 90% of the next £33,000) and for protected investment business, this is £48,000 (100% of the first £30,000 and 90% of the next £20,000).

The UK has implemented the minimum requirements imposed by the European Community Directives on such matters as the carrying on the business of credit institutions and investment firms, capital adequacy, own funds and large exposures. These form part of the European Single Market programme, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one European Union member State to conduct banking or investment business through the establishment of branches or by the provision of services on a cross-border basis in other member States without the need for local authorisation. Many of these Directives are being amended to reflect changes in the market and further European Directives are planned including the areas of e-commerce, market abuse and insurance regulation which once coming into effect will further shape and influence the UK regulatory agenda.

Formal consultation is a key aspect of the UK Government's reform programme and the Group has been reviewing and, where relevant, commenting on proposals both directly and through industry associations.

The Basel Committee on Banking Supervision and the European Commission have also issued consultation papers designed to replace the existing framework for the allocation of regulatory capital for credit risk. These bodies recognise that a more sophisticated approach is required to address both financial innovation and the increasingly complex risks faced by financial institutions. The revised Basel Capital Accord and the EU capital adequacy directive are not expected to be in place until, at the earliest, 2005.

#### Rest of the World

In the United States, Barclays PLC, Barclays Bank PLC and certain US subsidiary undertakings, branches and agencies of the Bank are subject to a comprehensive regulatory structure, involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended, and the Foreign Bank Supervision Enhancement Act of 1991. Such laws and regulations impose limitations on the types of businesses, and the ways in which they may be conducted, in the United States and on the location and expansion of banking business there. The securities and investment management activities conducted in the United States are also subject to a comprehensive scheme of regulation under the US federal securities laws, as enforced by the Securities and Exchange Commission.

Barclays operates in many other countries and its overseas offices and subsidiary and associated undertakings are subject to reserve and reporting requirements and controls imposed by the relevant central banks and regulatory authorities.

## Risk factors

This document contains certain forward-looking statements within the meaning of section 21E of the US Securities Exchange Act of 1934, as amended and section 27A of the US Securities Act of 1933, as amended with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. The Group may also make forward-looking statements in other written materials, including other documents filed with or furnished to the SEC. In addition, the Group's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. In particular, among other statements, certain statements in the Financial Review and Business Description with regard to management objectives, trends in results of operations, margins, costs, return on equity, risk management, and competition are forward looking in nature. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as "anticipate," "target," "expect," "estimate," "intend," "plan," "goal," "believe," or other words of similar meaning.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future results may differ materially from those set out in the Group's forward-looking statements. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, operational, legal, market, liquidity, credit and other risks set out below and Competition as discussed below and on page 33. The discussion in this report sets forth certain other risks and uncertainties that the Group believes could cause its actual future results to differ materially from expected results. However, other factors could also adversely affect the Group's results and the reader should not consider the factors discussed in this report to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. Barclays does not undertake to update forward-looking statements to reflect any changes in the Group's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any further disclosures Barclays may make in documents it files with the SEC.

### Business conditions and general economy

The profitability of the Group's businesses could be adversely affected by a worsening of general economic conditions in the UK or elsewhere as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets. An economic downturn or significantly higher interest rates could increase the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional borrowing.

### Government policies and economic controls

The Group's businesses and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the UK, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

The UK Competition Commission has conducted an enquiry into the supply of banking services by clearing banks to small and medium sized enterprises and made its report to the UK Government in October 2001. The Government has yet to publish the report and its conclusions and the potential impact on Barclays cannot be assessed prior to publication.

### Credit risk

The Group's provisions for credit losses provide for losses inherent in loans and advances. Estimating potential losses is inherently uncertain and depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.