

# Barclays PLC

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



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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 many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. 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 additional disclosures Barclays may make in documents it files with the SEC.

# Other Information

## Economic and Monetary Union, International Financial Reporting Standards and Supervision and Regulation

### Economic and Monetary Union

Barclays is maintaining a prudent programme to validate and develop further its existing plans relating to the potential membership of European Monetary Union by the UK, and to conduct feasibility studies with selected suppliers and partners.

Barclays continues to take an active role via the British Bankers' Association and other groups in industry-wide discussions, and maintains a dialogue with the regulatory community on UK Entry issues. It is also contributing to the further development of the Managed Transition Plan being authored by HM Treasury.

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 cost of preparing the Group's systems and operations.

Barclays incurred minimal expenditure during 2003 with respect to any decision to introduce the euro in the UK.

### International Financial Reporting Standards

By Regulation, the EU has agreed that virtually all listed companies must use International Financial Reporting Standards (IFRS) adopted for use in the EU in the preparation of their 2005 consolidated accounts. Barclays will have to comply with this Regulation. The objective is to improve financial reporting and enhance transparency to assist the free flow of capital throughout the EU and to improve the efficiency of the capital markets. Details of the Barclays implementation programme are discussed on pages 118 to 119.

### Supervision and Regulation

#### UK

The Financial Services Authority (FSA) is the independent body responsible for regulating financial services in the UK. The FSA was established by the Government and it exercises statutory powers under the Financial Services & Markets Act 2000 (FSMA). Since 1st December 2001, the FSA is the single statutory regulator responsible for the regulation of deposit taking, life insurance and investment business.

In December 2001, HM Treasury announced that the powers of the FSA would be extended to include the regulation of mortgages and general insurance. There are two implementation dates, known as N(M&GI). From 31st October 2004, the FSA will regulate mortgage lending, sales and administration. From 14th January 2005, the FSA will regulate the sale and administration of general insurance contracts.

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; and
- 4) Reduce the scope for financial crime.

Whilst carrying out these objectives, the FSA is also required to take into account a number of factors ('principles of good regulation') 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 and not having an unnecessarily adverse effect on competition.

The FSA Handbook contains the rules and regulatory guidance applicable to the UK financial services industry. The Handbook consists of sourcebooks providing the basis of FSA requirements, guidance and processes to be followed. Since its first introduction, the Handbook has undergone revision and updating. New sourcebooks are being added to the Handbook to provide the rules for the regulation of mortgages and general insurance.

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 guaranteeing, the protection of customers.

Barclays Bank PLC is authorised by the FSA to carry on regulated activities within the UK and is subject to consolidated supervision. The FSA's continuing supervision of financial institutions authorised by it is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

Under the FSA's 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 has adopted a homogeneous risk, processes and resourcing model in its approach to its supervisory responsibilities (known as the ARROW model) and the results of the risk assessment will be used by the FSA to develop a risk mitigation programme for a firm. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy (see Capital Resources on page 100), limits on large exposures to individual entities and groups of closely connected entities, and liquidity.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme) where an authorised firm is unable or is likely to be unable to meet claims made against it due to its financial circumstances. This single scheme replaces a number of pre-FSA schemes, including the Deposit Protection Scheme, the Investors Compensation Scheme and the Policyholders Protection Scheme.

## Other Information

### Supervision and Regulation

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). There is no maximum limit for protected insurance claims. The first £2,000 of a valid claim is paid in full together with 90% of the remaining loss.

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 Community Directives are planned including in the areas of distance marketing, market abuse and insurance regulation are to be implemented, which once in effect, will further shape and influence the UK regulatory agenda.

With effect from February 2003, the Group became subject to The Proceeds of Crime Act 2002 which further strengthens the law with regard to anti-money laundering. Additionally, new Money Laundering Regulations came into effect on 1st March 2004. These replace the 1993 Regulations and will be supported by the recently revised Joint Money Laundering Steering Group Guidance Notes.

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 and to introduce a capital adequacy requirement for operational 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 Risk Based Capital Directive are not currently expected to be implemented until the end of 2006.

#### 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, the Foreign Bank Supervision Enhancement Act of 1991 and the USA PATRIOT Act of 2001. 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 subsidiary and associated undertakings are subject to reserve and reporting requirements and controls imposed by the relevant central banks and regulatory authorities.

# Other Information

## Risk Factors

### Risk Factors

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The following discussion sets forth certain risk factors that the Group believes could cause its actual future results to differ materially from expected results. The discussion also acknowledges a risk factor specific to the Group's ability to achieve its primary goal for 2004 to 2007 inclusive. The reader should also note the references to liquidity risk (page 66) and non-financial, compliance, legal and tax risk (page 70). However, other factors could also adversely affect the Group results and the reader should not consider the factors discussed in this report to be a complete set of all potential risks and uncertainties.

#### **Business conditions and general economy**

The profitability of Barclays businesses could be adversely affected by a worsening of general economic conditions in the United Kingdom or abroad. Factors such as the liquidity of the global financial markets, the level and volatility of equity prices and interest rates, investor sentiment, inflation, and the availability and cost of credit could significantly affect the activity level of customers. A market downturn would likely lead to a decline in the volume of transactions that Barclays executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions.

A market downturn or worsening of the economy could cause the Group to incur mark to market losses in its trading portfolios. A market downturn also could potentially result in a decline in the fees Barclays earns for managing assets. For example, a higher level of domestic or foreign interest rates or a downturn in trading markets could affect the flows of assets under management. An economic downturn or significantly higher interest rates could adversely affect the credit quality of Barclays on balance sheet and off balance sheet assets by increasing the risk that a greater number of the Group's customers would be unable to meet their obligations.

#### **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.

#### **Market risks**

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

#### **Non-financial risks**

The Group's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Non-financial risk and losses can result from fraud, errors by employees, failure to properly document transactions or to obtain proper internal authorisation, failure to comply with regulatory requirements and Conduct of Business rules, equipment failures, natural disasters or the failure of external systems, for example, the Group's suppliers or counterparties. Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the non-financial risks faced by the Group.

### **Changes in governmental policy and regulation**

The Group's businesses and earnings can be affected by the fiscal or other policies that are adopted by various regulatory authorities of the UK, other European Union, 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. Areas where changes could have an impact include, inter alia:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework;
- changes in competition and pricing environments;
- changes in the financial reporting environment (see Conversion to International Financial Reporting Standards in 2005 on pages 118 to 119);
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for the Group's products and services.

### **Impact of strategic decisions taken by the Group**

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

### **Competition**

The UK and global financial services market remains highly competitive and innovative competition comes both from incumbent players and a steady stream of new market entrants. The landscape is expected to remain highly competitive in all the Group's businesses, which could adversely affect the Group's profitability.

### **Impact of external factors on the Group and peer group**

The Group's primary performance goal is to achieve top quartile TSR performance for 2004 to 2007 inclusive against a group of peer financial institutions. This goal assumes that external factors will impact all peer group entities equally. The Group's ability to achieve the goal will be significantly impacted if the Group is disproportionately impacted by negative external factors. Even if the Group performs well, if others perform better or the market believes others have performed better, we may not achieve our goal.