

# Business description

## UK Banking

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

## UK Retail Banking

UK Retail Banking comprises Personal Customers, Mortgages, Small Business and UK Premier. The bringing together of these businesses enables the building of broader and deeper relationships with both existing and new customers. Personal Customers and Mortgages provide a wide range of products and services to over 14 million retail customers, including current accounts, savings, mortgages, and general insurance. Small Business provides banking services to 566,000 small businesses. UK Premier provides banking, investment products and advice to some 273,000 affluent customers.

## UK Business Banking

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

## Private Clients and International

Private Clients and International manages Barclays wealth management operations and the Group's international retail and commercial banking activities. It is managed as two distinct businesses.

## Private Clients

Private Clients serves affluent, high net worth and corporate clients, primarily in the UK and continental Europe, providing private banking, offshore banking, stockbroking and asset management services, as well as financial planning services to a broader customer base. Private Clients comprises two businesses: International and Private Banking; and Wealth Solutions (which includes Barclays Financial Planning, Barclays Stockbrokers and the Gerrard business, which was acquired in 2003). Through Wealth Solutions, Private Clients delivers investment products to UK Retail Banking. Private Clients also includes the closed life assurance activities.

## International

International provides a range of banking services, including current accounts, savings, investments, mortgages and consumer loans to personal and corporate customers across Spain, Portugal, France, Italy, the Caribbean, Africa and the Middle East. International also includes the results of the FirstCaribbean business, accounted for as an associated undertaking.

## Barclaycard

Barclaycard is a multi-brand credit card and consumer lending business with an increasing international presence and is one of the leading credit card businesses in Europe.

In the UK, Barclaycard operates the Barclaycard branded credit cards, Barclays branded consumer loans – particularly Barclayloan – and also comprises FirstPlus, Clydesdale Financial Services and Monument credit cards.

Outside the UK, Barclaycard International is active in the United States, Germany, Spain, Greece, Italy, Portugal, Republic of Ireland and across Africa. The acquisition of the US credit card issuer, Juniper Financial Corporation, was completed on 1st December 2004. Juniper provides a platform for the expansion of Barclaycard's international business into the US credit card market.

Barclaycard Business processes card payments for retailers and merchants and issues cards to corporate customers.

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

## Barclays Capital

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

The Barclays Capital business model focuses on a broad span of financing and risk management services. It services a wide variety of client needs, from capital raising and managing foreign exchange, interest rate and commodity risks, through to providing technical advice and expertise.

Activities are primarily divided between two areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets sales, trading and research, prime brokerage and equity related activities; and Credit, which includes origination, sales, trading and research relating to loans, debt capital markets, structured capital markets, commercial mortgage backed securities, private equity and large asset leasing.

## Business description

### Barclays Global Investors

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

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products, including hedge funds. BGI also provides related investment services such as securities lending, cash management and portfolio transition services. In addition, BGI is the global product leader in Exchange Traded Funds (iShares), with over 100 funds for institutions and individuals trading in ten global markets. BGI's investment philosophy is founded on managing all dimensions of performance with a consistent focus on controlling risk, return and cost.

### Head Office Functions and Other Operations

Head office functions comprise all the Group's central costs, including the following areas that fall within Central Support: Executive Management, Finance, Treasury, Marketing, Communications, Human Resources, Strategy and Planning, Internal Audit, Legal, Corporate Secretariat, Tax, Compliance and Risk. Costs incurred wholly on behalf of the business units are recharged to them.

Transition Businesses comprise discontinued South American and Middle Eastern corporate banking businesses and other centrally managed Transition Businesses. These non-core relationships are managed separately with the objective of maximising the recovery from the assets concerned.

Central items include internal fees charged by Barclays Capital for structured capital markets activities, income from the management of the Group's operational premises, property related services and other central items including activities which support the operating business.

### Competition and Outlook

The Barclays Group operates in a number of highly competitive environments. Competitors include other banks, brokerage firms, investment banking companies, credit card companies, mortgage companies, leasing companies, and a variety of other financial services and advisory companies.

The UK market remains highly competitive and innovative. Competition comes both from incumbent players and new market entrants. The landscape is expected to remain highly competitive in all our businesses. Barclays remains at the forefront of market innovation to introduce new propositions to the market, and we are confident that the Group's portfolio of businesses, combined with a focus on improving franchise health and the continued application of value-based management principles, will stand the Group in good stead to meet the challenges ahead.

The recent growth in the UK economy may weaken in the short term, driven by a cooling in the consumer market in response to a more subdued housing market and also by a weaker international economy. The US economy is expected to be more subdued, partly because of oil price strength but also because of the need to resolve imbalances in the economy, in particular the federal and current account deficits. This may have important implications for growth, interest rates and exchange rates around the world, and particularly for Continental Europe, where growth has been dependent on exports.

The financial services industry has undergone consolidation in recent years, as companies involved in a broad range of financial services have merged, and this is expected to continue. This consolidation could result in competition becoming more intense, as firms continue to compete with companies that may be larger, better capitalised or have stronger local presences in certain geographies.

### Supervision and Regulation

Barclays is an international financial services group involved primarily in Banking, Investment Banking and Asset Management, and has operations in some 60 countries. The Group's operations, including its overseas offices subsidiary and associated undertakings, are subject to rules and regulations, including reserve and reporting requirements and conduct of business requirements imposed by the relevant central banks and regulatory authorities.

In the UK, the Financial Services Authority (FSA) is the independent body responsible for the regulation of deposit taking, life insurance and investment business. From 31st October 2004, the FSA assumed responsibility for the regulation of mortgage lending, sales and administration and from 14th January 2005, for the sale and administration of general insurance contracts. The FSA was established by the Government and it exercises statutory powers under the Financial Services and Markets Act 2000 (FSMA).

Barclays Bank PLC is authorised by the FSA to carry on a range of regulated activities within the UK and is subject to consolidated supervision. In its role as supervisor, the FSA is seeking to ensure the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers.

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

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 are used by the FSA to develop a risk mitigation programme for a firm. The FSA also promulgates requirements that banks and other financial institutions are required to meet on matters such as capital adequacy (see Capital ratios on pages 114 and 115), 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. 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.

Outside of the UK, the Group has operations (and main regulators) located in continental Europe in particular, France, Germany, Spain, Portugal and Italy (local central banks and other regulatory authorities); Asia Pacific (various regulatory authorities including the Hong Kong Monetary Authority, the Japanese FSA and the Monetary Authority of Singapore); Africa, where the Group's operations are headquartered in Johannesburg, South Africa (The South African Reserve Bank) and the United States of America (the Federal Reserve Board and the Securities and Exchange Commission).

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 Bank's operations are subject to extensive federal and state supervision and regulation by the Federal Reserve Board (FRB), the State of New York Banking Department (NYSB) and the Office of the Comptroller of the Currency (OCC). The deposits of Barclays Bank PLC branch are insured by the FDIC and subject to its regulations. The Investment Banking and Asset Management operations are subject to ongoing supervision and regulation by the Securities and Exchange Commission (SEC) as well as a comprehensive scheme of regulation under the US federal securities laws, as enforced by, for example, the National Association of Securities Dealers (NASD) and the OCC.

The UK has implemented the various requirements imposed by the European Union 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. A number of other European Community Directives are being introduced, for example the Market Abuse Directive and the Markets in Financial Instruments Directive

which once in 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 a revised 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 Capital Requirements Directive are expected to be phased in from the end of 2006.

#### Recent Developments

As announced on 23rd September 2004, Barclays is in discussion with Absa Group Limited ('Absa'), a leading South African bank, in connection with a possible partial offer for a majority stake in Absa. A due diligence exercise has been completed and Barclays has submitted applications to the South African regulators to approve the possible transaction. It is not known how long the approval process will take. The discussions may or may not lead to an offer being made.

On 20th January 2005 Barclays announced that it had made an offer to acquire the wealth business of ING Securities Bank (France), consisting of ING Ferri and ING Private Banking, subject to consultation with employee representative bodies and finalising terms.

On 3rd February 2005, Barclays announced its plans to consolidate its core general insurance business from two suppliers to one and that discussions are well advanced with Norwich Union to provide services across the home, motor and travel insurance portfolio. Barclays also announced that it has agreed in principle to purchase 90% of Gresham Insurance from Legal & General. Barclays currently owns the remaining 10%. At the same time negotiations are under way for the sale of Gresham Insurance to Norwich Union.

On 4th February 2005, Barclays announced it had signed an agreement with ForeningsSparbanken (also known as Swedbank) to form a joint venture to provide credit cards in the Nordic market, subject to confirmatory due diligence and regulatory approvals.

On 17th February 2005, BSKyB and Barclaycard signed an agreement to launch a Sky-branded credit card which will be fully integrated with interactive television.