HANOVER INSURANCE GROUP, INC.
Form 4
October 10, 2013

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Stuchbery Robert A

(Last) (First) (Middle)

440 LINCOLN STREET, E-10

(Street)

WORCESTER, MA 01653

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HANOVER INSURANCE GROUP, INC. [THG]

3. Date of Earliest Transaction (Month/Day/Year)
10/09/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President & CEO, Chaucer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	10/09/2013		A (1)		3	A	$ 54.83	290	I	By Trustee of The Chaucer Share Incentive Plan
Common Stock	10/09/2013		A (2)		6	A	$ 0	296 (3)	I	By Trustee of The Chaucer Share Incentive Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Stuchbery Robert A 440 LINCOLN STREET E-10 WORCESTER, MA 01653			President & CEO, Chaucer	

Signatures

Walter H. Stowell pursuant to Confirming Statement	10/10/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Purchase of shares under The Chaucer Share Incentive Plan.

(2) Matching shares under The Chaucer Share Incentive Plan; subject to vesting requirements.

(3) Does not include 23,650 shares held directly by the Reporting Person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ALIGN="bottom" ALIGN="right" BGCOLOR="#e5e5e5">187 3,817 175 4.4 129 322

GRCB Absa

24,677 411 24,266 1,518 6.2 328 133

Barclays Wealth

8,437 24 8,413 48 0.6 16 19

Total

201,588 3,739 197,849 7,508 3.7 2,333 116

	Home loans		Cards and unsecured loans		Other retail		Total retail	
	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08
	£m	£m	£m	£m	£m	£m	£m	£m
UK Retail Banking	**87,943**	82,303	**7,329**	8,294	**4,205**	4,352	**99,477**	94,949
Barclaycard			**21,564**	23,224	**5,226**	4,489	**26,790**	27,713
GRCB Western Europe	**34,592**	33,807	**3,513**	4,423	**2,720**	461	**40,825**	38,691
GRCB Emerging Markets	**452**	556	**2,502**	2,872	**93**	389	**3,047**	3,817
GRCB Absa	**20,492**	18,411	**1,003**	43	**5,138**	5,812	**26,633**	24,266
Barclays Wealth[a]	**5,620**	4,768	**1,822**	1,581	**2,504**	2,064	**9,946**	8,413
Total	**149,099**	139,845	**37,733**	40,437	**19,886**	17,567	**206,718**	197,849

Note

a 2008 Barclays Wealth analysis of retail loans and advances to customers has been reanalysed to reflect changes in the classification of assets.

the speed and extent of possible rises in interest rates in the UK, US and eurozone; and

the possibility of any further falls in residential property prices in the UK, South Africa and Spain.

Home Loans

The Group s principal home loans portfolios continued largely to be in the UK Retail Banking Home Finance business (59% of the Group s total), GRCB Western Europe (23%) primarily Spain and Italy, and South Africa (14%). The credit quality of the principal home loan portfolios reflected low LTV lending. Using current valuations, the average LTV of the portfolios as at 31st December 2009 was 43% for UK Home Finance (31st December 2008: 40%), 51% for Spain (31st December 2008: 48%) and 42% for South Africa (31st December 2008: 41%). The average LTV for new mortgage business during 2009 at origination was 48% for UK Home Finance (31st December 2008: 47%), 55% for Spain (31st December 2008: 63%) and 53% for South Africa (31st December 2008: 58%). The percentage of balances with an LTV of over 85% based on current values was 14% for UK Home Finance (31st December 2008: 10%), 7% for Spain (31st December 2008: 5%) and 27% for South Africa (31st December 2008: 25%). In the UK, buy-to-let mortgages comprised 6% of the total stock as at 31st December 2009.

Impairment charges rose across the home loans portfolios, reflecting the impact of lower house prices as well as some increases in arrears rates.

Three-month arrears as at 31st December 2009 were 1.04% for UK mortgages (31st December 2008: 0.91%), 0.63% for Spain (31st December 2008: 0.51%), as credit conditions deteriorated and 4.07% for South Africa (31st December 2008: 2.11%), due to consumer indebtedness and increased debt counselling balances following the enactment of the 2007 National Credit Act.

Repossessions

The number of properties in repossession in UK Home Loans remained very low during 2009. At the end of 2009 there were 196 properties in repossession, 40 higher than the previous year (31st December 2008: 156).

Credit Cards and Unsecured Loans

The Group s largest card and unsecured loan portfolios are in the UK (56% of Group total). The US cards portfolio accounts for 20% of the total exposure, where Barclaycard s portfolio is largely prime credit quality (FICO score of 660 or more).

Arrears rates in the UK Cards portfolio rose during the year to 1.79% (31st December 2008: 1.57%), reflecting the impact of the economic downturn. Repayment Plan balances grew to support government initiatives to supply relief to customers experiencing financial difficulty. As a percentage of the portfolio, three-month arrears rates rose during 2009 to 2.74% for UK Loans (31st December 2008: 2.28%) and 3.31% for US Cards (31st December 2008: 2.32%).

Number of Repossessions in UK Home Finance	As at 31.12.09	As at 31.12.08
Residential and buy-to-let mortgage portfolios	**196**	156

Home Loans Distribution of Balances by Loan to Value (Current Valuations[a])

	UK		Spain[b]		South Africa[c]	
	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08
	%	%	%	%	%	%
<= 75%	**74.5**	78.3	**83.2**	86.7	**57.8**	60.5
> 75% and <= 80%	**6.3**	6.1	**5.6**	4.8	**7.1**	7.5
> 80% and <= 85%	**5.4**	5.5	**4.4**	3.7	**7.7**	7.2
> 85% and <= 90%	**4.6**	4.5	**3.2**	1.6	**7.6**	7.6
> 90% and <= 95%	**3.4**	2.5	**1.7**	1.3	**7.8**	6.7
> 95%	**5.8**	3.1	**1.9**	1.9	**12.0**	10.5
Mark to market LTV %	**43**	40	**51**	48	**42**	41
Average LTV on new mortgages	**48**	47	**55**	63	**53**	58

Home Loans 3 Month Arrears[d]

	As at 31.12.09	As at 31.12.08
	%	%
UK	**1.04**	0.91
Spain	**0.63**	0.51
South Africa	**4.07**	2.11

Unsecured Lending 3 Month Arrears [e]

	As at 31.12.09	As at 31.12.08
	%	%
UK Cards[f]	**1.79**	1.57
UK Loans[g]	**2.74**	2.28
US Cards[h]	**3.31**	2.32

Notes

a Based on the following portfolios: UK: UKRB Residential Mortgages and Buy to Let portfolios;

Spain: GRCB Western Europe Spanish retail home finance portfolio; and South Africa:

GRCB Absa retail home finance portfolio.

b Spain mark to market methodology as per Bank of Spain requirements.

c South Africa mark to market methodology will be revised in 2010 to incorporate additional granularity.

d Defined as total 90 day + delinquent balances as a percentage of outstandings.

e Defined as total 90 day + delinquent balances as a percentage of outstandings. Includes accounts on repayment plans but excludes the balances in the legal book.

f UK Cards includes Branded Cards and Goldfish.

g UK Loans based on Barclayloans and Personal Loans from Barclaycard.

h Excludes Business Card; December 2009 includes US Airways.

Risk management

Credit risk management

continued

Expected loss

Basel II, introduced in 2008, includes, for those aspects of an entity s exposures that are on an Internal Ratings Based (IRB) approach, a statistical measure of credit losses known as Expected Loss (EL). EL is an estimate of the average loss amount from:

- defaulted and past due items at the reported date (i.e. incurred losses); and
- modelled default events over a 12-month forward period for performing exposures.

On the performing portfolios, EL is calculated as the product of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

- EL is assessed against both the performing and non-performing parts of the Group s portfolios.
- EL considers average credit conditions, generally uses a through-the-cycle PD and incorporates an adjustment to LGD which represents economic conditions in a downturn.

The aspect of an entity s exposures that are not on an IRB approach will continue to be measured on the standardised approach, against which Basel II does not assess EL. For this purpose, the regulatory impairment allowance on IRB and standardised portfolios gives an indication of credit losses on the standardised book.

EL is reflected in the calculation of capital supply, such that, for IRB portfolios, 50% of the excess of EL over total impairment allowances and valuation adjustments is deducted from each of Tier 1 and Tier 2 capital. If total impairment allowances and valuation adjustments exceed EL, then this excess can be added to Tier 2 capital. As at 31st December 2009, EL exceeded total impairment allowances and valuation adjustments by £50m (2008: £317m).

There are several differences in the calculation of the regulatory impairment allowance and EL, with these measures representing different views of losses and, as such, they are not directly comparable. These differences include the fact that regulatory impairment allowance reflects defaulted and past due items at the reporting date (i.e. incurred losses), whereas EL includes both the best estimate of losses in the non-performing

portfolio and the expected losses over the coming 12 months in the performing portfolio. EL for the performing portfolio is also based on Exposure at Default (EAD) and downturn LGD. For these reasons, EL will generally exceed regulatory impairment allowance. As noted above, this excess is deducted from capital.

In addition, whilst the regulatory impairment allowance is based on the impairment allowance for loans and advances, there are differences between these amounts in two main respects. Firstly, the regulatory impairment allowance includes valuation adjustments on available for sale exposures and exposures designated at fair value. Secondly, it excludes impairment held against securitisation exposures.

The principal drivers of the increase in EL during the year ended 31st December 2009 are as follows:

- UK Retail Banking EL increased £445m due to a deteriorating economic environment coupled with methodology enhancements.

- Barclays Commercial Bank EL decreased by £43m, driven by the change in treatment of defaulted assets partially offset by an increase in the non-performing book.

- Barclaycard EL increase of £351m was driven by the combination of an additional roll-out of IRB during the period and increased levels of retained non-performing assets during the recovery period.

- GRCB Western Europe EL increased to £243m following the migration of Spanish card portfolio and Italian and Portuguese mortgage portfolios onto the IRB approach.

- GRCB Absa EL increased by £466m, mostly due to exchange rate movements, higher delinquency levels and a deterioration in credit quality of the performing book.

- Barclays Capital EL increase of £910m was primarily driven by defaulted counterparties and an increase in IRB coverage, partially offset by a reduction in exposures due to foreign exchange movements.

Further exposures will be moved onto the IRB approach during 2010.

Additional information with respect to Expected Loss will be provided as part of our Pillar 3 disclosures, available at the end of March 2010.

Total EL on IRB portfolios	**As at 31.12.09 £m**	As at 31.12.08 £m
UK Retail Banking	**1,703**	1,258
Barclays Commercial Bank	**776**	819
Barclaycard	**1,261**	910
GRCB Western Europe	**243**	
GRCB Emerging Markets[a]		
GRCB Absa	**1,158**	692
Barclays Capital	**2,467**	1,557
Barclays Wealth	**23**	
Head Office Functions & Other Operations	**11**	1
Total EL on IRB portfolios	**7,642**	5,237
Total regulatory impairment allowance on IRB portfolios	**7,592**	4,672
Total regulatory impairment allowance on standardised portfolios	**4,693**	2,560

Note

a Not currently on the IRB approach.

Barclays Capital credit market exposures

Barclays Capital s credit market exposures as at 31st December 2009 primarily relate to commercial real estate and leveraged finance. These include positions subject to fair value movements in the income statement and positions that are classified as loans and advances and as available for sale.

The balances at and gross writedowns to 31st December 2009 are set out below:

During the year ended 31st December 2009, these positions have been reduced by £14,130m to £27,609m (31st December 2008: £41,739m), including net sales and paydowns of £6,590m, gross writedowns of £6,086m

and a decrease of £4,226m due to currency and other movements. In addition, on 16th September 2009, £5,087m credit market assets and £2,367m other assets were sold to Protium Finance LP, funded by a £7,669m loan extended by Barclays. The loan balance at 31st December 2009 of £7,859m includes accrued interest.

In the year ended 31st December 2009, gross writedowns comprised £4,417m (2008: £6,290m) of fair value losses through income and £1,669m (2008: £1,763m) of impairment charges. Gross writedowns included £2,082m (2008: £5,584m) against US residential mortgage positions, £3,007m (2008: £1,488m) against commercial mortgage positions, and £997m (2008: £981m) against other credit market positions.

Barclays Capital credit market exposures[a]		As at 31st December				Year ended 31.12.09		
	Notes	2009 $m	2008 $m	2009 £m	2008 £m	Fair value losses £m	Impairment charge £m	Gross losses £m
US Residential Mortgages								
ABS CDO Super Senior	A1	**3,127**	4,526	**1,931**	3,104		**714**	**714**
Other US sub-prime & Alt-A	A2	**2,254**	11,269	**1,392**	7,729	**531**	**555**	**1,086**
Monoline wrapped US RMBS	A3	**9**	2,389	**6**	1,639	**282**		**282**
Commercial Mortgages								
Commercial real estate loans and properties	B1	**12,525**	16,882	**7,734**	11,578	**2,466**		**2,466**
Commercial mortgage-backed securities	B1	**762**	1,072	**471**	735	**44**		**44**
Monoline wrapped CMBS	B2	**49**	2,703	**30**	1,854	**497**		**497**
Other Credit Market								
Leveraged Finance[b]	C1	**8,919**	13,193	**5,507**	9,048		**396**	**396**
SIVs, SIV-Lites and CDPCs	C2	**896**	1,622	**553**	1,113	**69**	**4**	**73**
Monoline wrapped CLO and other	C3	**3,443**	7,202	**2,126**	4,939	**528**		**528**
Total exposures		**31,984**	60,858	**19,750**	41,739			
Total gross writedowns						**4,417**	**1,669**	**6,086**
Loan to Protium	D	**12,727**		**7,859**				

Notes

a As the majority of positions are denominated in US Dollars, the positions above are shown in both US Dollars and Sterling.
b Includes undrawn commitments of £257m (2008: £531m).

Risk management

Credit risk management

continued

Analysis of Barclays Capital credit market assets by asset class

	Trading portfolio assets debt securities £m	Financial assets designated at fair value loans and advances £m	Derivative financial instruments £m	Loans and advances to customers £m	Available for sale debt securities £m	Other assets £m	**Total as at 31.12.09 £m**	Total as at 31.12.08 £m
ABS CDO Super Senior				1,931			**1,931**	3,104
Other US sub-prime	3	52	244	24	209		**532**	3,441
Alt-A	323		211		326		**860**	4,288
RMBS monoline wrapped US RMBS			6				**6**	1,639
Commercial real estate loans		6,534					**6,534**	11,578
Commercial real estate properties						1,200	**1,200**	
Commercial mortgage backed securities	860		(389)				**471**	735
Monoline wrapped CMBS			30				**30**	1,854
Leveraged finance[a]				5,250			**5,250**	8,517
SIVs and SIV-lites		355	53	122			**530**	963
CDPCs			23				**23**	150
Monoline wrapped CLO and other			2,126				**2,126**	4,939
Loan to Protium				7,859			**7,859**	
Total	**1,186**	**6,941**	**2,304**	**15,186**	**535**	**1,200**	**27,352**	41,208

Note

a Further analysis of Barclays Capital credit market exposures is on pages 109 and 110. Undrawn commitments of £257m (2008: £531m) are off-balance sheet and therefore not included in the table above. This is a change in presentation from 31st December 2008, which reflected certain loan facilities originated post 1st July 2007.

A. US Residential Mortgages

A1. ABS CDO Super Senior

	As at 31.12.09 Total £m	As at 31.12.08 Total £m	As at 31.12.09 Marks[a] %	As at 31.12.08 Marks[a] %
2005 and earlier	**1,048**	1,226	**77**	90
2006	**422**	471	**7**	37
2007 and 2008	**22**	25	**34**	69
Sub-prime	**1,492**	1,722	**57**	75
2005 and earlier	**761**	891	**43**	77
2006	**230**	269	**59**	75
2007 and 2008	**55**	62	**14**	37
Alt-A	**1,046**	1,222	**45**	74
Prime	**421**	520	**83**	100
RMBS CDO	**351**	402	**6**	
Sub-prime second lien	**110**	127		
Total US RMBS	**3,420**	3,993	**49**	68
CMBS	**37**	44	**89**	100
Non-RMBS CDO	**400**	453	**35**	56
CLOs	**32**	35	**100**	100
Other ABS	**37**	51	**100**	100
Total Other ABS	**506**	583	**48**	66
Total notional collateral	**3,926**	4,576		
Subordination	**(385)**	(459)		
Gross exposure pre-impairment	**3,541**	4,117		
Impairment allowances	**(1,610)**	(1,013)		
Total	**1,931**	3,104	**49**	68

ABS CDO Super Senior positions at 31st December 2009 comprised five high grade liquidity facilities which were fully drawn and classified within loans and receivables (31st December 2008: five facilities).

During the year, ABS CDO Super Senior positions reduced by £1,173m to £1,931m (31st December 2008: £3,104m). Positions are stated after writedowns and charges of £714m incurred in 2009 (2008: £1,461m). There was a decline of £290m resulting from depreciation in the value of the US Dollar against Sterling and amortisation of £169m in the year.

Note

a Marks above reflect the gross positions after impairment and subordination.

Risk management

Credit risk management

continued

A2. Other US Sub-Prime and Alt-A

Other US Sub-prime	As at 31.12.09 £m	As at 31.12.08 £m	Marks at 31.12.09 %	Marks at 31.12.08 %
Whole loans		1,565		72
Sub-prime securities (net of hedges)	**212**	929	**38**	25
Other positions with underlying sub-prime collateral:				
Derivatives	**244**	643	**96**	87
Loans	**76**	195	**22**	70
Real Estate		109		46
Total Other US Sub-Prime	**532**	3,441		
Alt-A				
Whole Loans		776		67
Alt-A Securities	**649**	3,112	**40**	16
Residuals		2		6
Derivative positions with underlying Alt-A collateral	**211**	398	**99**	100
Total	**860**	4,288		
Total Other US Sub-Prime and Alt-A	**1,392**	7,729		

The majority of Other US sub-prime and Alt-A positions are measured at fair value through profit and loss. The balance reduced by £6,337m to £1,392m (31st December 2008: £7,729m), driven by the Protium sale of £2,319m, other net sales, paydowns and other movements of £2,398m and gross losses of £1,086m. Depreciation of the US Dollar against Sterling resulted in a decline of £534m.

Counterparty derivative positions relating to vehicles which hold sub-prime collateral was £455m (31st December 2008: £1,041m). These positions largely comprise the most senior obligation of the vehicles.

A3. US Residential Mortgage Backed Securities Wrapped by Monoline Insurers

The table below shows RMBS assets where Barclays Capital held protection from monoline insurers at 31st December 2009. These are measured at fair value through profit or loss.

By rating of the monoline	Notional £m	Fair Value of Underlying Asset £m	Fair Value Exposure £m	Credit Valuation Adjustment £m	Net Exposure £m
As at 31.12.09					
Non-investment grade	**56**	**6**	**50**	**(44)**	**6**
Total	**56**	**6**	**50**	**(44)**	**6**
As at 31.12.08					
A/BBB	2,567	492	2,075	(473)	1,602
Non-investment grade	74	8	66	(29)	37
Total	2,641	500	2,141	(502)	1,639

A3. US Residential Mortgage Backed Securities Wrapped by Monoline Insurers continued

The balance reduced by £1,633m to £6m (31st December 2008: £1,639m), reflecting the Protium sale of £1,164m, a credit valuation adjustment of £282m, and currency and other movements of £187m.

Barclays would review claims in the event of default of the underlying assets. There have been no claims under the monoline insurance contracts as none of the underlying assets defaulted in the year.

The notional value of the assets split by the rating of the underlying asset is shown below.

By rating of underlying asset	As at 31.12.09			As at 31.12.08			
	A/BBB £m	Non-investment Grade £m	Total £m	AAA/AA £m	A/BBB £m	Non-investment Grade £m	Total £m
2005 and earlier				143			143
2006						1,240	1,240
2007 and 2008						510	510
High Grade				143		1,750	1,893
Mezzanine 2005 and earlier		**56**	**56**	31	330	338	699
CDO^2 2005 and earlier						49	49
US RMBS		**56**	**56**	174	330	2,137	2,641

B. Commercial Mortgages

B1. Commercial Real Estate and Mortgage-Backed Securities

Commercial mortgages held at fair value include commercial real estate loans of £6,534m (31st December 2008: £11,578m), commercial real estate properties of £1,200m (31st December 2008: £nil), and commercial mortgage-backed securities of £471m (31st December 2008: £735m).

Commercial Real Estate Loans and Properties

In the year ended 31st December 2009, the commercial real estate loans and properties balance reduced by £3,844m to £7,734m (31st December 2008: £11,578m). There were gross losses of £2,466m, of which £1,541m related to the US, £843m to UK and Europe, and £82m to Asia. There were gross sales and paydowns of £661m comprising £345m in the UK and Europe, £307m in the US, and £9m in Asia, and currency and other movements of £717m.

The commercial real estate loan balances comprised 51% UK and Europe, 44% US and 5% Asia.

One large transaction comprises 25% of the total US commercial real estate loan balance. The remaining 75% of the US balance comprises 64 transactions. The remaining weighted average number of years to initial maturity of the US portfolio is 1.2 years (31st December 2008: 1.4 years).

The UK and Europe portfolio is well diversified with 56 transactions at 31st December 2009. In Europe protection is provided by loan covenants and periodic LTV retests, which cover 83% of the portfolio. 50% of the German balance relates to one transaction secured on residential assets.

Commercial Real Estate Loans by Region	As at 31.12.09 £m	As at 31.12.08 £m	Marks at 31.12.09 %	Marks at 31.12.08 %
US	**2,852**	6,329	**62**	88
Germany	**1,959**	2,467	**84**	95
Sweden	**201**	265	**81**	96
France	**189**	270	**70**	94
Switzerland	**141**	176	**85**	97
Spain	**72**	106	**56**	92
Other Europe	**370**	677	**57**	90
UK	**429**	831	**61**	89
Asia	**321**	457	**77**	97
Total	**6,534**	11,578		

Risk management

Credit risk management

continued

B1. Commercial Real Estate and Mortgage-Backed Securities continued

Commercial Real Estate Loans by Industry	As at 31.12.09						As at 31.12.08
	US	Germany	Other Europe	UK	Asia	Total	Total
	£m	£m	£m	£m	£m	£m	£m
Residential	**1,132**	**1,053**		**152**	**102**	**2,439**	3,582
Office	**372**	**251**	**557**	**79**	**79**	**1,338**	3,656
Hotels	**614**		**223**	**8**	**1**	**846**	1,633
Retail	**54**	**507**	**73**	**30**	**73**	**737**	957
Industrial	**383**	**105**	**103**	**20**	**11**	**622**	887
Leisure				**140**		**140**	233
Land	**128**					**128**	232
Mixed/Others	**169**	**43**	**17**		**55**	**284**	398
Total	**2,852**	**1,959**	**973**	**429**	**321**	**6,534**	11,578

Commercial Real Estate Properties by Industry	As at 31.12.09 £m	As at 31.12.08 £m
Residential	**56**	
Office	**927**	
Hotels	**126**	
Industrial	**25**	
Leisure	**33**	
Land	**31**	
Mixed/Others	**2**	
Total	**1,200**	

Included within the commercial real estate properties balance are properties held by Crescent Real Estate Holdings LLC (Crescent) with a carrying value of £1,001m. On 19th November 2009, Barclays Capital assumed ownership of Crescent following the completion of a debt restructuring transaction.

Commercial Mortgage Backed Securities	As at 31.12.09 £m	As at 31.12.08 £m	Marks at[a] 31.12.09 %	Marks at[a] 31.12.08 %

Commercial Mortgage Backed Securities (Net of Hedges)	**471**	735	**20**	21

Note

a Marks are based on gross collateral.

B2. CMBS Wrapped by Monoline Insurers

The table below shows commercial mortgage backed security assets where Barclays Capital held protection from monoline insurers at 31st December 2009. These are measured at fair value through profit and loss.

By rating of the monoline	Notional £m	Fair value of underlying asset £m	Fair value exposure £m	Credit valuation adjustment £m	Net exposure £m
As at 31.12.09					
AAA/AA	**54**	**21**	**33**	**(3)**	**30**
Non-investment grade	**383**	**160**	**223**	**(223)**	
Total	**437**	**181**	**256**	**(226)**	**30**
As at 31.12.08					
AAA/AA	69	27	42	(4)	38
A/BBB	3,258	1,301	1,957	(320)	1,637
Non-investment grade	425	181	244	(65)	179
Total	3,752	1,509	2,243	(389)	1,854

The balance reduced by £1,824m to £30m (31st December 2008: £1,854m), reflecting the Protium sale of £1,208m, a credit valuation adjustment of £497m, and currency and other movements of £119m.

Claims would become due in the event of default of the underlying assets. There have been no claims under the monoline insurance contracts as none of the underlying assets defaulted in the year.

The notional value of the assets split by the current rating of the underlying asset is shown below.

By rating of the underlying asset	As at 31.12.09 AAA/AA £m	As at 31.12.09 A/BBB £m	As at 31.12.09 Total £m	As at 31.12.08 AAA/AA £m	As at 31.12.08 Total £m
2005 and earlier				437	437
2006	**54**		**54**	613	613
2007 and 2008		**383**	**383**	2,702	2,702
CMBS	**54**	**383**	**437**	3,752	3,752

Risk management

Credit risk management

continued

C. Other Credit Market

C1. Leveraged Finance

Leveraged Finance Loans by Region	As at 31.12.09 £m	As at 31.12.08 £m
UK	**4,530**	4,519
Europe	**1,051**	1,291
Asia	**165**	140
US	**35**	3,213
Total lending and commitments	**5,781**	9,163
Impairment	**(274)**	(115)
Net lending and commitments at period end [a]	**5,507**	9,048

Leveraged finance loans are classified within loans and advances and are stated at amortised cost less impairment. The table above includes certain loan facilities originated prior to 1st July 2007, the start of the dislocation in the credit market[b].

At 31st December 2009, net lending and commitments reduced £3,541m to £5,507m (31st December 2008: £9,048m), following a repayment of £3,056m at par in January 2009, impairment of £396m, and other movements of £89m.

The overall credit performance of the assets remained satisfactory with the majority of the portfolio performing to plan or in line with original stress tolerances. There were a small number of deteriorating positions on which higher impairment was charged.

C2. SIVs, SIV-Lites and CDPCs

SIV and SIV-lite positions comprise liquidity facilities and derivatives. At 31st December 2009 SIVs and SIV-Lites positions reduced by £433m to £530m (31st December 2008: £963m) with a reduced number of counterparties. There were £72m of gross writedowns in the year.

Credit Derivative Product Companies (CDPCs) positions at 31st December 2009 reduced by £127m to £23m (31st December 2008: £150m).

C3. CLO and Other Assets Wrapped by Monoline Insurers

The table below shows Collateralised Loan Obligations (CLOs) and other assets where we held protection from monoline insurers at 31st December 2009.

By rating of the monoline	Notional £m	Fair value of underlying asset £m	Fair value exposure £m	Credit valuation adjustment £m	Net exposure £m
As at 31.12.09					
AAA/AA	**7,336**	**5,731**	**1,605**	**(91)**	**1,514**
A/BBB					
Non-investment grade:					
Fair value through profit and loss	**1,052**	**824**	**228**	**(175)**	**53**
Loans and receivables	**9,116**	**7,994**	**1,122**	**(563)**	**559**
Total	**17,504**	**14,549**	**2,955**	**(829)**	**2,126**
As at 31.12.08					
AAA/AA	8,281	5,854	2,427	(55)	2,372
A/BBB	6,446	4,808	1,638	(204)	1,434
Non-investment grade	6,148	4,441	1,707	(574)	1,133
Total	20,875	15,103	5,772	(833)	4,939

The balance reduced by £2,813m to £2,126m (31st December 2008: £4,939m), reflecting increases in the fair value of the underlying assets of £1,321m, credit valuation adjustments of £528m, the Protium sale of £396m, and currency and other movements of £568m.

Claims would become due in the event of default of the underlying assets. There have been no claims under the monoline insurance contracts as none of the underlying assets defaulted in the year.

On 25th November 2009, £8,027m of the CLO assets wrapped by non-investment grade rated monolines were reclassified to loans and receivables (as discussed in Note 51). At 31st December 2009, the fair value of the transferred assets was £7,994m and the net exposure to monoline insurers was £559m. The remaining non-investment grade exposure continues to be measured at fair value through profit and loss.

Notes

a Includes undrawn commitments of £257m (2008: £531m).
b This is a change of presentation from 31st December 2008, which reflected certain loan facilities originated post 1st July 2007.

The notional value of the assets split by the current rating of the underlying asset is shown below.

By rating of underlying asset	As at 31.12.09						As at 31.12.08		
	AAA/AA		A/BBB		Non-investment grade				
	Fair value £m	Loans and receivables £m	Fair value £m	Loans and receivables £m	fair value £m	Total £m	AAA/AA Fair value £m	A/BBB Fair value £m	Total £m
2005 and earlier	1,518	2,209	294	815		4,836	6,037		6,037
2006	1,972	2,952		458		5,382	5,894		5,894
2007 and 2008	2,452	2,199	548	483		5,682	6,295		6,295
CLOs	5,942	7,360	842	1,756		15,900	18,226		18,226
2005 and earlier			55		55	110	862		862
2006	118		90		125	333	535		535
2007 and 2008	441				720	1,161	785	467	1,252
Other	559		145		900	1,604	2,182	467	2,649
Total	6,501	7,360	987	1,756	900	17,504	20,408	467	20,875

D. Protium

On 16th September 2009, Barclays Capital sold assets of £7,454m, including £5,087m in credit market assets, to Protium Finance LP (Protium), a newly established fund. The impact of the sale on each class of credit market asset is detailed in each relevant category in sections A to C.

As part of the transaction, Barclays extended a £7,669m 10-year loan to Protium, which will be repaid during the term from cash generated by the fund. The principal terms of the loan are as follows:

- The loan has a final maturity of ten years, with a rate of return fixed at USD LIBOR plus 2.75%.

- Protium is obliged to pay principal and interest equal to the amount of available cash generated by the fund after payment of fund expenses and certain payments to the fund s partners.

- The loan is secured by a charge over the assets of Protium.

The loan is classified as loans and receivables. The difference between the size of the loan and assets sold relates to cash and US Treasuries held by Protium. The increase in the loan balance between 16th September 2009 and 31st December 2009 reflects accrued interest which was received from Protium in January 2010.

The fair value of assets sold to Protium is set out below. The balances at 31st December 2009 include cash realised from subsequent sales and paydowns.

Protium assets	As at 31.12.09 $m	As at 16.09.09 $m	As at 30.06.09 $m	As at 31.12.09 £m	As at 16.09.09 £m	As at 30.06.09 £m
US Residential Mortgages						
Other US sub-prime whole loans and real estate	**1,038**	**1,124**	**1,256**	**641**	**682**	**764**
Other US sub-prime securities	**578**	**513**	**508**	**357**	**311**	**309**
Total other US sub-prime	**1,616**	**1,637**	**1,764**	**998**	**993**	**1,073**
Alt-A	**2,112**	**2,185**	**2,342**	**1,304**	**1,326**	**1,424**
Monoline wrapped US RMBS	**1,447**	**1,919**	**2,081**	**893**	**1,164**	**1,266**
Commercial Mortgages						
Monoline wrapped CMBS	**1,378**	**1,991**	**2,450**	**851**	**1,208**	**1,490**
Other Credit market						
Monoline wrapped CLO and other	**475**	**652**	**752**	**294**	**396**	**457**
Credit market related exposure	**7,028**	**8,384**	**9,389**	**4,340**	**5,087**	**5,710**
Fair value of underlying assets wrapped by monoline insurers	**4,095**	**3,592**	**2,728**	**2,529**	**2,179**	**1,659**
Other assets	**1,230**	**309**	**285**	**759**	**188**	**173**
Total	**12,353**	**12,285**	**12,402**	**7,628**	**7,454**	**7,542**
Loan to Protium	**12,727**	**12,641**		**7,859**	**7,669**	

Risk management

Credit risk management

continued

DBRS Inc. (DBRS), a nationally recognised statistical rating organisation, was engaged to provide a private, point-in-time rating reflecting the specific terms and conditions of the Protium loan as a whole. In addition point-in-time ratings with respect to gross cumulative cash flows due to Barclays under the loan to Protium, considered in sequential instalments, were also sought (Tranched Ratings).

On the transaction date, the loan fair value was assessed as equal to its notional amount. Subsequently, the obtained ratings were incorporated into an updated transaction date valuation. This valuation discounted the cash flows at appropriate discount rates determined by Barclays based on the Tranched Ratings. The calculation produced a value of £7,651m ($12,611m). The difference to the original valuation was £18m ($30m), which has been recorded as a loss on sale in the period. The Tranched Ratings and loan valuation are summarised in the table below:

Tranched Rating	Cash flows £m	Weighted average life (years)	Spread to LIBOR (bps)	Net present value £m
AAA	**2,092**	**3.8**	**52**	**2,015**
AA+	**1,464**	**4.3**	**80**	**1,385**
AA/AA-	**354**	**4.3**	**108/128**	**330**
A	**642**	**2.6**	**169**	**606**
BBB/BBB-	**1,098**	**4.7**	**260/355**	**955**
BB+/BB	**1,021**	**2.1**	**451/546**	**915**
B/B-/CCC	**1,886**	**3.4**	**700/785/870**	**1,445**
Total	**8,557**		**282**	**7,651**

The loan valuation was performed by Barclays and, of the information disclosed above, only the Tranched Ratings were provided by DBRS. The Tranched Ratings are as of 15th September 2009 and are based on a scenario in which the portfolio of assets sold to Protium is static, with no subsequent sales or additional purchases.

A single rating of CCC (low), being the Tranched Rating for the lowest rated cash flows, has been assigned to the loan as a whole by DBRS. This rating addresses the ultimate payment of cumulative principal and interest under the terms and conditions of the Protium loan and it being advanced as a single loan, as opposed to being structurally tranched. The single rating of CCC (low) is also as of 15th September 2009 and is based on a scenario in which the portfolio of assets sold to Protium is static, with no subsequent sales or additional purchases.

The loan to Protium was assessed for impairment by the Group as at 31st December 2009 in line with its impairment policy. This analysis found that there was no impairment as at 31st December 2009.

Debt securities and other bills

The following table presents an analysis of the credit quality of debt and similar securities, other than loans held within the Group. Securities rated as investment grade amounted to 91.8% of the portfolio (2008: 91.6%).

	Treasury and other eligible bills £m	Debt securities £m	Total £m	%
As at 31.12.09				
AAA to BBB- (investment grade)	**13,950**	**151,621**	**165,571**	**91.8**
BB+ to B	**1,895**	**10,297**	**12,192**	**6.8**
B- or lower		**2,571**	**2,571**	**1.4**
Total	**15,845**	**164,489**	**180,334**	**100.0**
Of which issued by:				
governments and other public bodies	**15,845**	**72,238**	**88,083**	**48.8**
US agency		**23,924**	**23,924**	**13.3**
mortgage and asset-backed securities		**17,826**	**17,826**	**9.9**
corporate and other issuers		**41,641**	**41,641**	**23.1**
bank and building society certificates of deposit		**8,860**	**8,860**	**4.9**
Total	**15,845**	**164,489**	**180,334**	**100.0**
Of which classified as:				
trading portfolio assets	**9,926**	**116,594**	**126,520**	**70.2**
financial instruments designated at fair value		**4,007**	**4,007**	**2.2**
available for sale securities	**5,919**	**43,888**	**49,807**	**27.6**
Total	**15,845**	**164,489**	**180,334**	**100.0**
As at 31.12.08				
AAA to BBB- (investment grade)	7,314	198,493	205,807	91.6
BB+ to B	1,233	15,309	16,542	7.4
B- or lower		2,343	2,343	1.0
Total	8,547	216,145	224,692	100.0
Of which issued by:				
governments and other public bodies	8,547	73,881	82,428	36.7
US agency		34,180	34,180	15.2
mortgage and asset-backed securities		34,844	34,844	15.5
corporate and other issuers		55,244	55,244	24.6
bank and building society certificates of deposit		17,996	17,996	8.0
Total	8,547	216,145	224,692	100.0
Of which classified as:				
trading portfolio assets	4,544	148,686	153,230	68.2
financial instruments designated at fair value		8,628	8,628	3.8

available for sale securities	4,003	58,831	62,834	28.0
Total	8,547	216,145	224,692	100.0

Risk management

Credit risk management

continued

Derivatives

The use of derivatives and their sale to customers as risk management products are an integral part of the Group s trading activities. These instruments are also used to manage the Group s own exposure to fluctuations in interest, exchange rates and commodity and equity prices as part of its asset and liability management activities.

Barclays Capital manages the trading derivatives book as part of the market risk book. This includes foreign exchange, interest rate, equity, commodity and credit derivatives. The policies regarding market risk management are outlined in the market risk management section on pages 122 to 126.

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group s net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

The Group participates both in exchange traded and over the counter derivatives markets.

Exchange traded derivatives

The Group buys and sells financial instruments that are traded or cleared on an exchange, including interest rate swaps, futures and options on futures. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

Over the counter traded derivatives

The Group also buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange.

These instruments range from commoditised transactions in derivative markets, to trades where the specific terms are tailored to the requirements of the Group s customers. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default.

Foreign exchange derivatives

The Group s principal exchange rate related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group s principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Credit derivatives

The Group s principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection.

A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer in return receives a predetermined amount.

Equity derivatives

The Group s principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options whose underlyings include mutual funds, hedge funds, indices and multi-asset portfolios.

Commodity derivatives

The Group s principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

The tables below set out the fair values of the derivative assets together with the value of those assets subject to enforceable counterparty netting arrangements for which the Group holds offsetting liabilities and eligible collateral.

Derivative assets	Gross assets £m	Counterparty netting £m	Net exposure £m
As at 31.12.09			
Foreign exchange	**51,775**	**45,391**	**6,384**
Interest rate	**261,211**	**213,446**	**47,765**
Credit derivatives	**56,295**	**48,774**	**7,521**
Equity and stock index	**17,784**	**13,330**	**4,454**
Commodity derivatives	**29,750**	**21,687**	**8,063**
	416,815	**342,628**	**74,187**
Total collateral held			**31,471**
Net exposure less collateral			**42,716**
As at 31.12.08			
Foreign exchange	107,730	91,572	16,158
Interest rate	615,321	558,985	56,336
Credit derivatives	184,072	155,599	28,473
Equity and stock index	28,684	20,110	8,574
Commodity derivatives	48,995	35,903	13,092
	984,802	862,169	122,633
Total collateral held			54,905
Net exposure less collateral			67,728

Gross derivative assets of £417bn (2008: £985bn) cannot be netted down under IFRS. Derivative assets would be £374bn (2008: £917bn) lower than reported under IFRS if counterparty or collateral netting were allowed.

Exposure relating to derivatives, repurchase agreements, reverse repurchase agreements, stock borrowing and loan transactions is calculated using internal, FSA approved models. These are used as the basis to assess both regulatory capital and capital appetite and are managed on a daily basis. The methodology encompasses all relevant factors to enable the current value to be calculated and the future value to be estimated, for example: current market rates, market volatility and legal documentation (including collateral rights).

Risk management

Market risk management

Market Risk is the risk that Barclays earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. The majority of market risk exposure resides in Barclays Capital. Barclays is also exposed to market risk through non-traded interest rate risk and the pension fund.

Barclays market risk objectives are to:

Understand and control market risk by robust measurement and the setting of limits.

Facilitate business growth within a controlled and transparent risk management framework.

Ensure traded market risk resides primarily in Barclays Capital.

Minimise non-traded market risk.

Organisation and structure

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Director is responsible for the Market Risk Control Framework and, under delegated authority from the Chief Risk Officer, sets a limit framework within the context of the approved market risk appetite. A daily market risk report summarises Barclays market risk exposures against agreed limits. This daily report is sent to the Chief Risk Officer, the Market Risk Director, the Group Finance Director and the appropriate Business Risk Directors.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the Barclays Market Risk Control Framework. Oversight and support is provided to the business by the Market Risk Director, assisted by the Group Market Risk

team. The Market Risk Committee reviews, approves, and makes recommendations concerning the market risk profile across Barclays including risk appetite, limits and utilisation. The Committee meets monthly and is chaired by the Market Risk Director. Attendees include the Chief Risk Officer, respective business risk managers and senior managers from Group Market Risk.

In Barclays Capital, the Head of Market Risk is responsible for implementing the Market Risk Control Framework. Day to day responsibility for market risk lies with the senior management of Barclays Capital, supported by the Market Risk Management team that operates independently of the trading areas. Oversight is provided by Group Market Risk.

Daily market risk reports are produced for Barclays Capital as a whole as well as for the main business areas. These are sent to Group Market Risk for review and inclusion in the daily market risk report. The risks covered include interest rate, credit spread, commodity, equity and foreign exchange. A more detailed trading market risk presentation is produced fortnightly and discussed at the Barclays Capital Traded Positions Risk Review meeting. The attendees at this meeting include senior trading and risk managers from Barclays Capital and Group Market Risk.

In each of the six main Global Retail and Commercial Banking businesses (UK Retail Banking, Barclays Commercial Bank, Barclaycard, Western Europe, Emerging Markets and Absa), Group Treasury and Wealth, there is a dedicated market risk department. The head of each department is responsible for implementing the Market Risk Control Framework, with oversight provided by Group Market Risk. A combination of daily and monthly risk reports are sent to Group Market Risk for review and inclusion in the daily market risk report. A risk summary is also presented at Market Risk Committee and the respective Asset and Liability Committees.

The chart below gives an overview of the business control structure.

Traded market risk

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

Risk Measurement and Control

The measurement techniques used to measure and control traded market risk include Daily Value at Risk (DVaR), Expected Shortfall, average of the three worst hypothetical losses from the DVaR simulation (3W), Global Asset Class stress testing and Global Scenario stress testing.

DVaR is an estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for one business day. Barclays Capital uses the historical simulation methodology with a two-year unweighted historical period at the 95% confidence level.

The historical simulation methodology can be split into three parts:

Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.

Sum all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.

DVaR is the 95th percentile selected from the two-year history of daily hypothetical total profit or loss.

Market volatility decreased from the extreme levels observed in the second half of 2008, but remained above pre-crisis 2007 levels. As a consequence of the unweighted DVaR historical simulation methodology, the extreme 2008 volatility will continue to impact DVaR until late 2010.

The DVaR model has been approved by the FSA to calculate regulatory capital for the trading book. The approval covers general market risk in interest rate, foreign exchange, commodities and equity products, and issuer specific risk for the majority of single name and portfolio traded credit products. Internally, as noted before, DVaR is calculated for the trading book and certain banking books.

When reviewing DVaR estimates, a number of considerations should be taken into account. These are:

Historical simulation uses the recent past to generate possible future market moves but the past may not be a good indicator of the future.

The one-day time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within one day.

Intra-day risk is not captured.

DVaR does not indicate the potential loss beyond the 95th percentile.

DVaR is an important market risk measurement and control tool and consequently the model is regularly assessed. The main approach employed is the technique known as back-testing which counts the number of days when a loss (as defined by the FSA) exceeds the corresponding DVaR estimate, measured at the 99% confidence level.

The FSA categorises a DVaR model as green, amber or red. A green model is consistent with a good working DVaR model and is achieved for models that have four or less back-testing exceptions in a 12-month period. For Barclays Capital s trading book, green model status was maintained for 2009 and 2008.

Expected Shortfall is the average of all hypothetical losses from the historical simulation beyond DVaR. To improve the control framework, formal monitoring of 3W (average of the three worst observations from the DVaR historical simulation) was started in the first half of 2009.

Risk management

Market risk management

continued

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Global Asset Class stress testing has been designed to cover major asset classes including interest rate, credit spread, commodity, equity and foreign exchange rates. They are based on past stress moves in respective asset class prices and rates. Global Scenario stress testing is based on hypothetical events which could lead to extreme yet plausible stress type moves, under which profitability is seriously challenged.

Market Risk is controlled through the use of limits where appropriate on the above risk measures. Limits are set at the total Barclays Capital level, risk factor level e.g. interest rate risk, and business line level e.g. Emerging Markets. Book limits such as foreign exchange and interest rate sensitivity limits are also in place.

Risk exposures are monitored by Barclays Capital s risk managers with oversight provided by Group Market Risk. The total DVaR limit is approved by the Board. Risk Factor DVaR limits and Global Asset Class stress testing limits are approved by Market Risk Committee.

Analysis of traded market risk exposures

Barclays Capital s market risk exposure, as measured by average total DVaR, increased by 45% to £77m (2008: £53m). The rise was mainly due to volatility considerations, increased interest rate and credit spread exposure,

and the Lehman Brothers North American

businesses acquisition. Volatility impacted average DVaR because 2008 s extreme volatility impacted DVaR throughout 2009 but only impacted 2008 DVaR in the last four months of 2008. More commentary is given under the total DVaR graph below.

Expected Shortfall and 3W averaged £121m and £209m respectively representing increases of £51m (73%) and £93m (80%) compared to 2008.

As we enter 2010, the principal uncertainties which may impact Barclays market risk relate to volatility in interest rates, commodities, credit spreads, equity prices and foreign exchange rates. While these markets exhibit improved liquidity and reduced volatility following Central Bank support, price instability and higher volatility may still arise as government policy seeks to target future economic growth while controlling inflation risk.

Analysis of trading revenue

The histogram below shows the distribution of daily trading revenue for Barclays Capital in 2009 and 2008.

Trading revenue reflects top-line income[g], excluding income from Private Equity and Principal Investments.

The average daily revenue in 2009 was £71m, 87% more than recorded for 2008 (£38m). There were 247 positive days, 5 negative days and one flat day (2008: 206 positive, 47 negative, one flat).

The daily average, maximum and minimum values of DVaR, Expected Shortfall and 3W were calculated as below:	Year ended 31st December 2009			Year ended 31st December 2008		
	Average	High	Low	Average	High	Low
DVaR (95%)	£m	£m	£m	£m	£m	£m
Interest rate risk	**44**	**83**	**23**	29	48	15
Credit Spread risk	**58**	**102**	**35**	31	72	15
Commodity risk	**14**	**20**	**11**	18	25	13
Equity risk	**13**	**27**	**5**	9	21	5
Foreign exchange risk	**8**	**15**	**3**	6	13	2
Diversification effect	**(60)**			(40)		
Total DVaR	**77**	**119**	**50**	53	95	36
Expected Shortfall	**121**	**188**	**88**	70	146	41
3W	**209**	**301**	**148**	116	282	61

Notes

a Barclays acquires Lehman Brothers North American businesses during a period of extreme market volatility. The Lehman positions are subsequently reduced.

b DVaR increases significantly due to the extreme market volatility impacting the DVaR calculation. Several financial institutions fail and there is a material deterioration in the global economic outlook.

c Total DVaR peaked at £119m in March 2009.

d Before trending down mainly due to a decrease in credit spread exposure and interest rate exposure, reaching £58m in August 2009.

e DVaR subsequently increased as markets began to recover and new positions were added to facilitate client trades.

f DVaR decreased towards year end driven by a reduction in exposure and an increase in diversification. Total DVaR as at 31st December 2009 was £55m (31st December 2008: £87m).

g Defined on page 342.

Non-traded interest rate risk

Non-traded interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, and resides mainly in Global Retail and Commercial Banking, and Group Treasury.

Barclays objective is to minimise non-traded risk. This is achieved by transferring interest rate risk from the business to a local treasury or Group Treasury, which in turn hedges the net exposure with the external market. Limits exist to ensure no material risk is retained within any business or product area. Trading activity is not permitted outside Barclays Capital.

Risk measurement and control

The risk in each business is measured and controlled using both an income metric (Annual Earnings at Risk) and a present value metric (Daily Value at Risk or stress testing). In addition, scenario stress analysis is carried out by the business and reviewed by senior management and business-level asset and liability committees, when required.

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income (NII) over the next 12 months. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a 100 basis points increase or decrease in interest rates, subject to a minimum interest rate of 0%. Balances are adjusted for an assumed behavioural profiles. This includes the treatment of non-maturity deposits.

Daily Value at Risk and stress testing is calculated using a Barclays Capital consistent approach. Both these metrics are calculated by each respective business area with oversight provided by Group Market Risk.

Risk exposures are monitored by respective business risk managers with oversight provided by Group Market Risk. The main business limits are approved by Market Risk Committee. Book limits such as foreign exchange and interest rate sensitivity limits are also in place where appropriate.

To further improve the market risk control framework, Group Market Risk initiated an ongoing programme of conformance visits to non-traded Treasury operations. These visits review both the current market risk profile and potential market risk developments, as well as verifying conformance with Barclays policies and standards as detailed in the Market Risk Control Framework.

Analysis of Net Interest Income sensitivity

The table below shows the pre-tax net interest income sensitivity for the non-trading financial assets and financial liabilities held at 31st December 2009 and 31st December 2008. The sensitivity has been measured using AEaR methodology as described above. The benchmark interest rate for each currency is set as at 31st December 2009. The figures include the effect of hedging instruments but exclude exposures held or issued by Barclays Capital as these are measured and managed using DVaR.

Non-traded interest rate risk, as measured by AEaR, was £369m as at 31st December 2009, an increase of £112m compared to 31st December 2008. The increase mainly reflects the reduced spread generated on retail and commercial banking liabilities in the lower interest rate environment. If the interest rate hedges had not been in place then the AEaR for 2009 would have been £704m (2008: £670m).

DVaR is also used to control market risk in Global Retail and Commercial Banking Western Europe and in Group Treasury. The indicative average 2009 DVaRs for 2009 are £1.4m (2008: £1.3m) for Western Europe and £1.0m (2008: £0.6m) for Group Treasury.

Other market risks

Barclays maintains a number of defined benefit pension schemes for past and current employees. The ability of the Pension Fund to meet the projected pension payments is maintained through investments and regular bank contributions. *Pension risk* arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, Barclays could be required or might choose to make extra contributions to the pension fund.

During 2009 a risk reducing programme was conducted. This entailed increasing the holding of index-linked gilts to better match the liabilities and reducing the net exposure to equities. Financial details of the pension fund are in Note 30.

Investment risk is the risk of financial volatility arising from changes in the market value of investments, principally occurring in Barclays insurance companies. A change in the fair value of these investments may give rise to a liability which may have to be funded by the Group. It is Barclays policy to hedge such exposures in line with a defined risk appetite.

Barclays policy is for foreign exchange traded risk to be concentrated and managed in Barclays Capital. Some transactional *foreign exchange risk exposure* arises outside Barclays Capital to support and facilitate client activity. This is minimised in accordance with modest risk limits and was not material as at 31st December 2009. Other non-Barclays capital foreign exchange exposure is covered in Note 48.

Asset management structural risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. It is Barclays policy that businesses monitor and report this risk against a defined risk appetite and regularly assess potential hedging strategies.

Net interest income sensitivity (AEaR) by currency	31st December 2009		31st December 2008	
	+100 basis points £m	-100 basis points £m	+100 basis points £m	-100 basis points £m
GBP	**30**	**(360)**	3	(273)
USD	**(43)**	**14**	(25)	7
EUR	**(34)**		(34)	30
ZAR	**29**	**(27)**	13	(13)
Others	**(1)**	**4**		(8)
Total	**(19)**	**(369)**	(43)	(257)
As percentage of total net interest income	**(0.16%)**	**(3.10%)**	(0.37%)	(2.24%)

Risk management

Market risk management

continued

Disclosures about certain trading activities including non-exchange traded commodity contracts

The Group provides a fully integrated service to clients for base metals, precious metals, oil, power, natural gas, coal, freight, emission credits, structured products and other related commodities. This service offering continues to expand, as market conditions allow, through the addition of new products and markets.

The Group offers both over the counter (OTC) and exchange-traded derivatives, including swaps, options, forwards and futures and enters into physically settled contracts in base metals, power and gas, oil and related products. Physical commodity positions are held at fair value and reported under the Trading Portfolio in Note 12 on page 217.

Fair value measurement

The fair values of physical and derivative positions are primarily determined through a combination of recognised market observable prices, exchange

prices, and established inter-commodity relationships. Further information on fair value measurement of financial instruments can be found in Note 50 on page 293.

Credit risk

Credit risk exposures are actively managed by the Group. Refer to Note 47 on page 269 for more information on the Group s approach to credit risk management and the credit quality of derivative assets.

Fair value of the commodity derivative contracts

The tables below analyse the overall fair value of the OTC commodity derivative contracts by movement over time and contractual maturity. As at 31st December 2009 the fair value of the commodity derivative contracts reflects a gross positive fair value of £27,134m (2008: £44,881m) and a gross negative value of £26,227m (2008: £45,817m).

Movement in fair value of commodity derivative positions	2009 £m	2008 £m
Fair value of contracts outstanding at the beginning of the period	**(936)**	812
Contracts realised or otherwise settled during the period	**1,521**	241

Fair value of new contracts entered into during the period	**(181)**	(1,245)
Other changes in fair values	**503**	(744)
Fair value of contracts outstanding at the end of the period	**907**	(936)

Maturity analysis of commodity derivative fair value	**2009 £m**	**2008 £m**
Not more than one year	**(75)**	(2,022)
Over one year but not more than five years	**620**	999
Over five years	**362**	87
Total	**907**	(936)

Risk management

Capital risk management

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

- **Meet minimum regulatory requirements in the UK and in other jurisdictions such as the United States and South Africa where regulated activities are undertaken. The Group s authority to operate as a bank is dependent upon the maintenance of adequate capital resources.**
- **Support its credit rating. A weaker credit rating would increase the Group s cost of funds.**
- **Support its growth and strategic options.**

Organisation and structure

Barclays operates a centralised capital management model, considering both regulatory and economic capital. The Group s capital management objectives are to:

- maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the FSA and the US Federal Reserve Bank s requirements that a financial holding company be well capitalised ;
- maintain sufficient capital resources to support the Group s risk appetite and economic capital requirements;
- support the Group s credit rating;
- ensure locally regulated subsidiaries can meet their minimum capital requirements; and
- allocate capital to support the Group s strategic objectives including optimising returns on economic and regulatory capital.

Treasury Committee manages compliance with the Group s capital management objectives. The Committee reviews actual and forecast capital demand and resources on a monthly basis. The processes in place for delivering the Group s capital management objectives are:

- establishment of internal targets for capital demand and ratios;
- managing capital ratio sensitivity to foreign exchange movement;
- ensuring local entity regulatory capital adequacy;
- allocating capital in the Group s strategic medium-term plan; and
- economic Capital management.

In addition to the processes above, the Group Risk Oversight Committee and the Board Risk Committee annually review and set risk appetite (see page 268) and analyse the impacts of stress scenarios on the Group capital forecast (see page 93) in order to understand and manage the Group s projected capital adequacy.

Internal targets

To support its capital management objectives, the Group sets internal targets for its key capital ratios. Internal targets are reviewed regularly by Treasury Committee to take account of:

- changes in forecast demand for capital caused by accessing new business opportunities, including mergers and acquisitions;
- flexibility in debt capital issuance and securitisation plans;
- the possible impact of stress scenarios including:
  - changes in forecast demand for capital from unanticipated drawdown of committed facilities or as a result of deterioration in the credit quality of the Group s assets;
  - changes in forecast profits and other capital resources; and
  - changes to capital resources and forecast demand due to foreign exchange rate movements.

Managing capital ratio sensitivity to foreign exchange rate movements

The Group has capital resources and risk weighted assets denominated in foreign currencies. Changes in foreign exchange rates result in changes in the sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the Group s regulatory capital ratios are sensitive to foreign currency movements.

The Group s capital ratio hedge strategy is to minimise the volatility of the capital ratios caused by foreign exchange rate movements. To achieve this, the Group aims to maintain the ratio of foreign currency Core Tier 1, Tier 1 and Total Capital resources to foreign currency RWAs the same as the Group s capital ratios.

The Group s foreign currency capital resources include investments in subsidiaries and branches, intangible assets, non-controlling interest, deductions from capital and debt capital instruments.

The Group s investments in foreign currency subsidiaries and branches create Core Tier 1 capital resources denominated in foreign currencies. Changes in the sterling value of the investments due to foreign currency movements are captured in the currency translation reserve, resulting in a movement in Core Tier 1 capital.

To create foreign currency Tier 1 and Total Capital resources additional to the Core Tier 1 capital resources, the Group issues, where possible, debt capital in non-sterling currencies. This is primarily achieved by the issuance of debt capital from Barclays Bank PLC, but can also be achieved by subsidiaries issuing capital in local currencies.

In some circumstances, investments in foreign currency subsidiaries and branches are hedged. In these circumstances, foreign currency capital resources are not created. Hedging decisions take into account the impact on capital ratios, the strategic nature of the investment, the cost of hedging, the availability of a suitable foreign exchange market and prevailing foreign exchange rates. Depending on the value of foreign currency net investments, it is not always possible to maintain the ratio of Core Tier 1 capital to RWAs consistent with the Group s Core Tier 1 ratio in all currencies, leaving some capital ratio sensitivity to foreign currency movements.

The investment of proceeds from the issuance of equity accounted foreign currency preference shares also contributes to foreign currency capital resources. If a preference share issuance is redeemed, the cumulative movement from the date of issuance in the currency translation reserve will be offset by an equal and opposite movement in reserves reflecting the revaluation of the preference shares to prevailing foreign exchange rates. Issuance of a replacement Tier 1 instrument in the same currency will maintain the hedge of the Tier 1 ratio.

Local entity regulatory capital adequacy

The Group manages its capital resources to ensure that those Group entities that are subject to local capital adequacy regulation in individual jurisdictions meet their minimum capital requirements. Local management manages compliance with entities minimum regulatory capital requirements by reporting to local Asset and Liability Committees with oversight by The Treasury Committee, as required.

Injections of capital resources into Group entities are centrally controlled by The Treasury Committee, under authorities delegated from the Group Executive Committee. The Group s policy is for surplus capital held in Group entities to be repatriated to Barclays Bank PLC in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and tax implications.

Other than as indicated above, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intra-group liabilities when due.

Risk management

Capital risk management

continued

Allocating capital in the Group s strategic medium-term plan

Capital adequacy and returns on regulatory and economic capital form a key part of the Group s annual strategic medium-term planning process. Amongst other strategic objectives, the Group seeks to optimise returns on economic and regulatory capital through the planning process. To achieve this, executive management consider returns on risk weighted assets and economic capital when setting limits for business capital demand. Executive management will also review the forecast capital ratios to ensure internal targets continue to be met over the medium-term plan.

The Treasury Committee reviews the limits on capital demand on a monthly basis taking into account actual performance.

Economic capital

Economic capital is an internal measure of the minimum equity and preference capital required for the Group to maintain its credit rating based upon its risk profile.

Barclays assesses capital requirements by measuring the Group s risk profile using both internally and externally developed models. The Group assigns economic capital primarily within the following risk categories: credit risk, market risk, operational risk, private equity and pension risk.

The Group regularly reviews its economic capital methodology and benchmarks outputs to external reference points. The framework uses default probabilities during average credit conditions, rather than those prevailing at the balance sheet date, thus seeking to remove cyclicality from the economic capital calculation. The economic capital framework takes into consideration time horizon, correlation of risks and risk concentrations.

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

The total average economic capital required by the Group is compared with the supply of economic capital to evaluate economic capital utilisation. The supply of economic capital is based on the available shareholders equity adjusted for certain items (e.g. retirement benefit liability, cash flow hedging reserve) and including preference shares.

Economic capital forms the basis of the Group s submission for the Basel II Internal Capital Adequacy Assessment Process (ICAAP).

Economic Capital Demand[a]

UK Retail Banking economic capital allocation decreased £200m to £3,750m (2008: £3,950m) mainly reflecting a revised measurement of economic capital for business risk. In addition, small reductions were seen in the economic capital allocation for overdrafts and local businesses that were offset by growth in mortgages and consumer lending.

Barclays Commercial Bank economic capital allocation decreased £50m to £3,450m (2008: £3,500m) driven primarily by a reduction in exposure offset by an increase in non-performing loans due to economic conditions.

Barclaycard economic capital allocation increased £650m to £3,350m (2008: £2,700m), reflecting asset growth and appreciation of US Dollar against Sterling in 2008 and modest asset growth in 2009.

GRCB Western Europe economic capital allocation increased £600m to £2,500m (2008: £1,900m), due to deteriorating wholesale credit conditions, acquisition activity, additional fixed assets as a result of branch expansion and exchange rate movements.

GRCB Emerging Markets economic capital allocation increased £100m to £1,200m (2008: £1,100m). This reflects asset growth in 2008 versus a relatively slower contraction in 2009.

GRCB Absa economic capital allocation increased £100m to £1,200m (2008: £1,100m), driven primarily by exchange rate movements offset by a reduction in exposure.

Barclays Capital average economic capital allocation increased £2,500m to £10,750m (2008: £8,250m). This primarily reflects deterioration in credit quality that resulted in growth in the economic capital allocation towards the end of 2008 and a further modest increase in 2009.

Barclays Global Investors investment economic capital allocation of £1,000m (2008: £400m) includes BGI assets up to disposal on 1st December 2009, and BGI related exposures post-disposal, mainly the BlackRock, Inc equity investment.

Barclays Wealth economic capital allocation increased £50m to £550m (2008: £500m), reflecting growth in loans and advances and increased measure of economic capital for other risk types.

Average economic capital	Average year ended 31.12.09 £m	Average year ended 31.12.08 £m
UK Retail Banking	**3,750**	3,950
Barclays Commercial Bank	**3,450**	3,500
Barclaycard	**3,350**	2,700
GRCB Western Europe	**2,500**	1,900
GRCB Emerging Markets	**1,200**	1,100
GRCB Absa	**1,200**	1,100
Barclays Capital	**10,750**	8,250
Barclays Global Investors	**1,000**	400
Barclays Wealth	**550**	500
Head Office Functions and Other Operations	**100**	50
Economic capital requirement (excluding goodwill)	**27,850**	23,450
Average historic goodwill and intangible assets[b]	**11,000**	9,450
Total economic capital requirement [c]	**38,850**	32,900

Notes

a Calculated using an adjusted average over the year and rounded to the nearest £50m for presentation purposes. Economic capital demand excludes the economic capital calculated for pension risk.
b Average goodwill relates to purchased goodwill and intangible assets from business acquisitions.
c Total period end economic capital requirement as at 31st December 2009 stood at £40,750m (31st December 2008: £39,200m).

The average supply of capital to support the economic capital framework [a]	2009 £m	2008 £m
Shareholders equity excluding non-controlling interests less goodwill [b]	**28,000**	17,650
Retirement benefits liability	**800**	1,050
Cash flow hedging reserve	**(300)**	100
Available for sale reserve	**600**	400
Cumulative gains on own credit	**(1,150)**	(1,250)
Preference shares	**5,850**	5,500
Available funds for economic capital excluding goodwill	**33,800**	23,450
Average historic goodwill and intangible assets [b]	**11,000**	9,450
Available funds for economic capital including goodwill [c]	**44,800**	32,900

Notes

a Averages for the period will not correspond to period-end balances disclosed on the balance sheet. Numbers are rounded to the nearest £50m for presentational purposes only.

b Average goodwill relates to purchased goodwill and intangible assets from business acquisitions.

c Available funds for economic capital as at 31st December 2009 stood at £40,650m (2008:£39,200m).

d Average EC charts exclude the EC calculated for pension risk (average pension risk for 2009 is £2,500m compared with £650m in 2008).

e Includes Transition Businesses and capital for central function risks.

f Includes credit risk loans.

g Includes investments in associates, private equity risk, insurance risk, residual value and business risk. Also includes BGI related exposures post-disposal, mainly the BlackRock equity.

Risk management

Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities, investments and deposits. In extreme circumstances lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that it will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events.

Organisation and structure

Barclays Treasury operates a centralised governance and control process that covers all of the Group s liquidity risk management activities. Businesses assist Barclays Treasury in policy formation and limit setting by providing relevant and expert input for their local markets and customers.

Execution of the Group s liquidity risk management strategy is carried out at country level within agreed policies, controls and limits, with the Country Treasurer providing reports directly to Barclays Treasury to evidence conformance with the agreed risk profile. Liquidity risk is a standing agenda item at Country and Cluster Asset and Liability Committees and on a consolidated basis is reported to the Group s Treasury Committee.

The objective of the Group s liquidity risk management strategy is to ensure that the funding profile of individual businesses and the Group as a whole is appropriate to underlying market conditions and the profile of our business in each given country. Liquidity risk limits and controls are flexed to achieve that profile and are based on regular qualitative and quantitative assessments of conditions under both normal and stressed conditions. Businesses are only allowed to have funding exposure to wholesale markets where they can demonstrate that their market is sufficiently deep and liquid and then only relative to the size and complexity of their business.

Liquidity limits reflect both local regulatory requirements as well as the behavioural characteristics of their balance sheets. Breaches of limits are reported to Treasury Committee together with details of the requirements to return to compliance.

Liquidity risk framework

Barclays has a comprehensive Liquidity Risk Management Framework (the Liquidity Framework) for managing the Group s liquidity risk. The objective of the Liquidity Framework is for the Group to have sufficient liquidity to continue to operate for at least the minimum period specified by the FSA in the event that the wholesale funding markets are neither open to Barclays nor to the market as a whole. Many of the stress tests currently applied under the Liquidity Framework will also be applied under the FSA s new regime, although the precise calibration may differ in Barclays final Individual Liquidity Guidance to be set by the FSA. The Framework considers a range of possible wholesale and retail factors leading to loss of financing including:

- maturing of wholesale liabilities;
- loss of secured financing and widened haircuts on remaining book;

retail and commercial outflows from savings and deposit accounts;

drawdown of loans and commitments;

potential impact of a two-notch ratings downgrade; and

withdrawal of initial margin amounts by counterparties.

These stressed scenarios are used to assess the appropriate level for the Group s liquidity pool, which comprises unencumbered assets and cash. Barclays regularly uses these assets to access secured funding markets, thereby testing the liquidity assumptions underlying pool composition. The Group does not presume the availability of central bank facilities to monetise the liquidity pool in any of the stress scenarios under the Liquidity Framework.

Liquidity Pool

The Group liquidity pool as at 31st December 2009 was £127bn gross (31st December 2008: £43bn) and comprised cash and unencumbered assets.

The cost of maintaining the liquidity pool is a function of the source of funding for the buffer and the reinvestment spread. The cost of funding the liquidity pool is estimated to have been approximately £650m for 2009.

Composition of the Group liquidity pool	Cash and deposits with central banks	Government guaranteed bonds	Government and supranational bonds	Other available liquidity	Total
	£bn	£bn	£bn	£bn	£bn
As at 31st December 2009[a]	**81**	**3**	**31**	**12**	**127**
As at 31st December 2008 [a]	30		2	11	43

Note

a Previously disclosed as Barclays Capital only.

Term Financing

Raising term funding is important in meeting the risk appetite of the Barclays Liquidity Framework. Barclays has continued to increase the term of issued liabilities during 2009 by issuing:

- £15bn equivalent of public senior term funding;
- £1.8bn equivalent of public covered bonds; and
- £21bn equivalent of structured notes.

The Group has £4bn of publicly issued debt and £11bn of structured notes maturing in 2010.

Intraday liquidity

The need to monitor, manage and control intraday liquidity in real time is recognised by the Group as a critical process: any failure to meet specific intraday commitments would have significant consequences, such as a visible market disruption.

The Group policy is that each operation must ensure that it has access to sufficient intraday liquidity to meet any obligations it may have to clearing and settlement systems. Major currency payment flows and payment system collateral are monitored and managed in real time to ensure that at all times there is sufficient collateral to make payments. In practice, the Group maintains a significant buffer of surplus intraday liquidity to ensure that payments are made on a timely basis. The Group actively engages in payment system development to help ensure that new payment systems are robust.

Day to day funding

Day to day funding is managed through limits on wholesale borrowings, secured borrowings and funding mismatches. These ensure that on any day and over any period there is a limited amount of refinancing requirement. These requirements include replenishment of funds as they mature or are borrowed by customers.

In addition to cash flow management, Treasury also monitors term

mismatches between assets and liabilities, as well as the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Diversification of liquidity sources

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors, the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are competitive rates and the maintenance of depositors confidence. Such confidence is based on a number of factors including the Group s reputation and relationship with those clients, the strength of earnings and the Group s financial position.

Funding Structure

Global Retail and Commercial Banking, Barclays Wealth and Head Office Functions are structured to be self-funded through customer deposits and Barclays equity and other long-term capital. The Barclays Capital and Absa businesses are funded through the wholesale secured and unsecured funding markets.

The ratio of customer loans to customer deposits and long-term funding has improved to 81% at 31st December 2009, from 93% at 31st December 2008.

Global Retail and Commercial Banking, Barclays Wealth and Head Office Functions

An important source of structural liquidity is provided by our core retail deposits in the UK, Europe and Africa; mainly current accounts and savings accounts. Although contractually current accounts are repayable on demand and savings accounts at short notice, the Group s broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group s operations and liquidity needs.

Wholesale depositor split by counterparty type Barclays Capital	Banks	Corporates	Governments	Other central banks	Other financial institutions	Total
	%	%	%	%	%	%
As at 31st December 2009	**36**	**15**	**2**	**16**	**31**	**100**
As at 31st December 2008	32	15	11	9	33	100

Wholesale depositor split by geography Barclays Capital	US	UK	Other EU	Japan	Africa	Rest of World	Total
	%	%	%	%	%	%	%
As at 31st December 2009	**9**	**25**	**23**	**3**	**16**	**24**	**100**
As at 31st December 2008	13	22	16	9	17	23	100

GRCB, Barclays Wealth and Head Office[a] Behavioural maturity profile of assets and liabilities	Funding surplus	Not more than 1 year	Cash inflow/(outflow) Over 1 year but not more than 2 years	Over 2 years but not more than 3 years	Over 3 years but not more than 4 years	Over 4 years but not more than 5 years	Over 5 years
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
As at 31st December 2009	**94.5**	**(10.2)**	**17.8**	**21.2**	**7.8**	**1.8**	**(132.9)**

Note

a Prior year figures have not been provided as these measures have not previously been reported on a comparable basis.

Risk management

Liquidity risk management

continued

Group policy is to ensure that the assets of the retail, wealth and corporate bank, together with Head Office functions, on a global basis, do not exceed customer deposits and subordinated funding so that these businesses place no reliance on wholesale markets. The exception to this policy is Absa, which has a large portion of wholesale funding due to the structure of the South African financial sector.

In order to assess liquidity risk, the balance sheet is modelled to reflect behavioural experience in both assets and liabilities and is managed to maintain a cash surplus. The maturity profile, excluding Absa, resulting from this behavioural modelling is set out above. This shows that there is a funding surplus of £94.5bn, and that there are expected outflows of £10.2bn within one year from asset repayments being less than liability attrition. For subsequent years the expected repayments on assets are larger than the roll off of liabilities resulting in cash inflows. Maturities of net liabilities are, therefore, behaviourally expected to occur after five years.

Barclays Capital

Barclays Capital manages its liquidity to be primarily funded through wholesale sources, managing access to liquidity to ensure that potential cash outflows in a stressed environment are covered.

73% of the inventory is funded on a secured basis (31st December 2008: 50%). Additionally, much of the short-term funding is invested in highly liquid assets and central bank cash and therefore contributes towards the Group liquidity pool.

Barclays Capital undertakes secured funding in the repo markets based on liquidity characteristics. Limits are in place for each security asset class reflecting liquidity in the cash and financing markets for these assets. The percentage of secured funding using each asset class as collateral is set out below.

Unsecured wholesale funding for the Group (excluding Absa) is managed by Barclays Capital within specific term limits. Excluding short-term deposits that are included within the Group s liquidity pool, the term of unsecured liabilities has been extended, with average life improving from at least 14 monthsa at 31st December 2008 to at least 26 months at 31st December 2009.

The extension of the term of the wholesale financing has meant that, as at 31st December 2009, 81% of net wholesale funding had remaining maturity of greater than one year and, as at the same date, there was no net wholesale unsecured re-financing required within six months.

Regulatory Changes in 2009

The FSA issued its policy document on strengthening liquidity standards on 5th October detailing the requirements for liquidity governance to be in place by 1st December 2009, and the quantitative requirements for liquidity buffers, which will be in place from 1st June 2010, although with an extended transition period of several years to meet the expected standards.

This is the most comprehensive liquidity regime imposed by any regulator globally, requiring increased quantitative reporting from June 2010 and additional evidential reporting to demonstrate adherence to new qualitative requirements. In addition, the Basel Committee on Banking Supervision released a consultative document International framework for liquidity risk measurement, standards and monitoring in December 2009. This included two new key liquidity metrics. A liquidity coverage ratio aimed at ensuring banks have sufficient unencumbered high quality assets to meet cash outflows in an acute short-term stress and a Net Stable Funding Ratio to promote longer-term structural funding of the Bank s balance sheet and capital market activities.

Secured funding by asset class	Government	Agency	MBS	ABS	Corporate	Equity	Other
	%	%	%	%	%	%	%
As at 31st December 2009	**59**	**7**	**7**	**6**	**10**	**8**	**3**
As at 31st December 2008	49	9	11	9	15	4	3

Contractual maturity of unsecured liabilities [b] (Net of assets available from the Group Liquidity pool)	Not more than 1 month	Not more than 2 months	Not more than 3 months	Not more than 6 months	Not more than 1 year	Over 1 year
	%	%	%	%	%	%
As at 31st December 2009					**19**	**81**

Notes

a The 31st December 2008 average unsecured liability term has been restated to at least 14 months to reflect refinements in the underlying calculation.
b Prior years figures have not been provided as these measures have not previously been reported on a comparable basis.

Risk management

Operational risk management

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in the Group s operations and are typical of any large enterprise. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts. Barclays is committed to the advanced measurement and management of operational risks. In particular, it has implemented improved management and measurement approaches for operational risk to strengthen control, improve customer service and minimise operating losses. Barclays was granted a Waiver to operate an Advanced Measurement Approach (AMA) under Basel II, which commenced in January 2008.

The Group s operational risk management framework aims to:

- **Understand and report the operational risks being taken by the Group.**
- **Capture and report operational errors made.**
- **Understand and minimise the frequency and impact, on a cost benefit basis, of operational risk events.**
- **Manage residual exposures using insurance.**

Organisation and structure

Barclays works to benchmark our internal operation risk practices with peer banks and to drive the development of advanced operational risk techniques across the industry. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Events of small significance are expected to occur and are accepted as part of the normal course of business; events of material significance are rare and the Group seeks to reduce the risk from these in accordance with its agreed Risk Appetite.

Barclays has a Group Operational Risk Framework, which is consistent with and part of the Group Internal Control and Assurance Framework. Minimum control requirements have been established for all key areas of identified risk by Principal Risk owners (see page 82). The risk categories relevant to operational risks are Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory and Technology. In addition, the following risk categories are used for business risk: Brand Management, Corporate Responsibility, Strategic and Major Change. Responsibility for implementing and overseeing these policies is positioned with Group

Principal Risk Owners. The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. Front line risk managers are widely distributed throughout the Group in business units. They service and support these areas, assisting line managers in managing these risks.

Business Risk Directors in each business are responsible for overseeing the implementation of and compliance with Group policies. Governance and Control Committees in each business monitor control effectiveness. The Group Governance and Control Committee receives reports from the committees in the businesses and considers Group-significant control issues and their remediation. In the Group Centre, each Principal Risk is owned by a senior individual who liaises with Principal Risk owners within the businesses. In addition, the Operational Risk Director oversees the range of operational risks across the Group in accordance with the Group Operational Risk Framework. Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the material risks to their business objectives, control issues of Group-level significance, and operational risk events. Specific reports are prepared on a regular basis for the Group Risk Oversight Committee, the Board Risk Committee and the Board Audit Committee. The Internal Audit function provides further assurance for operational risk control across the organisation and reports to the Board and senior management.

Measurement and capital modelling

Barclays applies a consistent approach to the identification and assessment of key risks and controls across all business units. Managers in the businesses use self-assessment techniques to identify risks, evaluate control effectiveness and monitor performance. Business management determines whether particular risks are effectively managed within business Risk Appetite and otherwise takes remedial action. The risk assessment process is consistent with the principles in the integrated framework published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

A standard process is used Group-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are captured in a central database and reported monthly to the Group Operational Risk Executive Committee.

Barclays also uses a database of external public risk events and is a member of the Operational Risk Data Exchange (ORX), an association of international banks that share anonymised loss data information to assist in risk identification, assessment and modelling.

Risk management

Operational risk management

continued

By combining internal data, including internal loss experience, risk and control assessments, key indicators and audit findings, with external loss data and expert management judgement, Barclays is able to generate Key Risk Scenarios (KRSs), which identify the most significant operational risks across the Group. The KRSs are validated at business unit and at Group level to ensure that they appropriately reflect the level of operational risk. These are the main input to our capital model. Distributions of the potential frequency and severity of operational risk losses are calculated and aggregated to provide a distribution of potential losses over a year for Barclays as a whole. The aggregation process takes into account potential correlations between risk events. The regulatory capital requirement is determined to a soundness standard of 99.9% confidence. Operational risk capital is allocated, on a risk sensitive basis, to business units, providing an incentive to manage these risks within appetite levels.

Operational risk events

A high proportion of Barclays operational risk events have a low financial cost associated with them and a very small proportion of operational risk events have a material impact. In 2009, 73.3% of reported operational losses had a value of £50,000 or less (2008: 72.8%) but accounted for 3.4% of the overall impact (2008: 7.8%). In contrast, 4% of the operational risk events had a value of £1m or greater (2008: 2%) but accounted for 87% of the overall impact (2008: 66%).

The Group monitors trends in operational losses by size, business unit and internal risk categories (including Principal Risk). For comparative purposes, the analysis below presents Barclays operational risk events by Basel II category. In 2009, the highest frequency of events occurred in Execution, Delivery and Process Management (45.3%) and External Fraud (35.8%). These two areas also accounted for the majority of losses by value, with Execution, Delivery and Process Management comprising 50.5% of total operational risk losses and External Fraud making up a further 38.1%. The growth in impact of external fraud year on year was caused by stressed market conditions which have brought to light fraudulent activity by a number of clients.

Risk management

Statistical information

Statistical and other risk information

This section of the report contains supplementary information that is more detailed or contains longer histories than the data presented in the discussion. For commentary on this information, please refer to the preceding text (pages 94 to 121).

Credit risk management

Table 1: Maturity analysis of loans and advances to banks

	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
At 31st December 2009									
United Kingdom	**403**	**3,234**	**64**	**625**	**405**			**398**	**5,129**
Other European Union	**1,262**	**10,803**	**44**	**394**	**184**	**8**	**2**		**12,697**
United States	**1,257**	**10,926**	**77**	**619**	**157**		**38**	**63**	**13,137**
Africa	**565**	**465**	**221**	**98**	**974**	**6**	**41**	**18**	**2,388**
Rest of the World	**1,275**	**5,111**	**88**	**98**	**708**	**530**	**17**	**18**	**7,845**
	4,762	**30,539**	**494**	**1,834**	**2,428**	**544**	**98**	**497**	**41,196**
At 31st December 2008									
United Kingdom	127	6,474	193	163	232			343	7,532
Other European Union	1,210	10,458	54	415	407	50	5	1	12,600
United States	1,310	11,215	7	676	324			84	13,616
Africa	584	595	51	1	51	861	8	38	2,189
Rest of the World	1,652	6,957	201	666	884	943	39	479	11,821
Loans and advances to banks	4,883	35,699	506	1,921	1,898	1,854	52	945	47,758

Table 2: Interest rate sensitivity of loans and advances	Fixed rate	2009 Variable	Total £m	Fixed rate	2008 Variable	Total £m

At 31st December	£m	rate £m		£m	rate £m	
Banks	**15,898**	**25,298**	**41,196**	12,101	35,657	47,758
Customers	**94,470**	**336,489**	**430,959**	98,404	369,934	468,338

Risk management

Statistical information

continued

Table 3: Loans and advances to customers by industry

At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Financial services	**95,839**	114,069	71,160	45,954	43,102
Agriculture, forestry and fishing	**4,321**	3,281	3,319	3,997	3,785
Manufacturing	**18,855**	26,374	16,974	15,451	13,779
Construction	**6,303**	8,239	5,423	4,056	5,020
Property	**23,468**	22,155	17,018	16,528	16,325
Government	**4,801**	5,301	2,036	2,426	1,718
Energy and water	**10,735**	14,101	8,632	6,810	6,891
Wholesale and retail, distribution and leisure	**19,746**	20,208	18,216	15,490	17,760
Transport	**7,284**	8,612	6,258	5,586	5,960
Postal and communication	**3,427**	7,268	5,404	2,180	1,313
Business and other services	**30,277**	37,373	30,363	26,999	22,529
Home loans	**149,738**	140,166	106,751	92,477	85,206
Other personal	**44,971**	48,305	46,423	37,535	39,866
Finance lease receivables	**11,194**	12,886	11,190	10,142	9,088
Loans and advances to customers	**430,959**	468,338	349,167	285,631	272,342

Table 4: Loans and advances to customers in the UK

At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Financial services	**21,975**	26,091	21,131	14,011	11,958
Agriculture, forestry and fishing	**2,192**	2,245	2,220	2,307	2,409
Manufacturing	**8,549**	11,340	9,388	9,047	8,469
Construction	**3,544**	4,278	3,542	2,761	3,090
Property	**13,514**	12,091	10,203	10,010	10,547
Government	**496**	20	201	6	6
Energy and water	**2,447**	3,040	2,203	2,360	2,701
Wholesale and retail distribution and leisure	**12,792**	14,421	13,800	12,951	12,747
Transport	**2,784**	3,467	3,185	2,745	2,797
Postal and communication	**1,098**	1,491	1,416	899	455
Business and other services	**16,577**	19,589	20,485	19,260	15,397
Home loans	**90,903**	85,672	69,874	62,621	57,382
Other personal	**27,687**	28,362	28,691	27,617	30,598

Finance lease receivables	**3,021**	3,911	4,008	3,923	5,203
Loans and advances to customers in the UK	**207,579**	216,018	190,347	170,518	163,759

Loans and advances included in the above table for the year 2008 have been reanalysed between Home loans and Other personal to reflect changes in classification of assets.

The industry classifications in Tables 3-7 have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the Parent s predominant business may be in a different industry.

Table 5: Loans and advances to customers in other European Union countries					
	2009	2008	2007	2006	2005
At 31st December	£m	£m	£m	£m	£m
Financial services	**14,475**	14,218	7,585	5,629	3,982
Agriculture, forestry and fishing	**187**	216	141	786	155
Manufacturing	**5,754**	8,700	4,175	3,147	2,254
Construction	**1,610**	1,786	1,159	639	803
Property	**4,224**	4,814	2,510	2,162	3,299
Government	**575**	1,089		6	
Energy and water	**3,882**	5,313	2,425	2,050	1,490
Wholesale and retail distribution and leisure	**2,428**	2,653	1,719	776	952
Transport	**1,905**	2,603	1,933	1,465	1,695
Postal and communication	**649**	962	662	580	432
Business and other services	**4,878**	5,490	3,801	2,343	3,594
Home loans	**35,752**	34,451	21,405	18,202	16,114
Other personal	**7,403**	6,440	6,615	4,086	2,283
Finance lease receivables	**2,636**	3,328	2,403	1,559	1,870
Loans and advances to customers in other European Union countries	**86,358**	92,063	56,533	43,430	38,923

Table 6: Loans and advances to customers in the United States					
	2009	2008	2007	2006	2005
At 31st December	£m	£m	£m	£m	£m
Financial services	**46,132**	56,006	29,342	17,516	16,229
Agriculture, forestry and fishing	**1**		2	2	1
Manufacturing	**797**	2,171	818	519	937
Construction	**7**	21	18	13	32
Property	**428**	549	568	1,714	329
Government	**303**	336	221	153	300
Energy and water	**2,336**	3,085	1,279	1,078	1,261
Wholesale and retail distribution and leisure	**720**	1,165	846	403	794
Transport	**383**	415	137	128	148
Postal and communication	**355**	3,343	2,446	36	236
Business and other services	**1,721**	2,279	1,053	1,432	885
Home loans	**19**	28	10	349	2
Other personal	**7,410**	7,691	3,256	2,022	1,443
Finance lease receivables	**318**	298	304	312	328
Loans and advances to customers in the United States	**60,930**	77,387	40,300	25,677	22,925

Table 7: Loans and advances to customers in Africa	2009	2008	2007	2006	2005

	£m	£m	£m	£m	£m
At 31st December					
Financial services	**3,600**	1,956	3,472	2,821	4,350
Agriculture, forestry and fishing	**1,936**	817	956	889	1,193
Manufacturing	**1,419**	1,082	1,351	1,747	1,501
Construction	**903**	2,053	637	591	1,068
Property	**4,154**	3,485	2,433	1,987	1,673
Government	**1,449**	1,741	967	785	625
Energy and water	**158**	118	356	156	193
Wholesale and retail distribution and leisure	**1,789**	1,012	1,326	1,050	2,774
Transport	**368**	739	116	354	394
Postal and communication	**715**	293	231	241	27
Business and other services	**4,319**	4,699	1,285	2,631	1,258
Home loans	**22,057**	19,036	15,393	11,223	11,630
Other personal	**964**	3,069	6,287	2,976	4,955
Finance lease receivables	**5,018**	5,130	4,357	4,240	1,580
Loans and advances to customers in Africa	**48,849**	45,230	39,167	31,691	33,221

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Statistical information

continued

Table 8: Loans and advances to customers in the Rest of the World					
At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Loans and advances	**27,042**	37,421	22,702	14,207	13,407
Finance lease receivables	**201**	219	118	108	107
Loans and advances to customers in the Rest of the World	**27,243**	37,640	22,820	14,315	13,514

Table 9: Maturity analysis of loans and advances to customers

	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
At 31st December 2009									
United Kingdom									
Corporate lending	**21,369**	**14,941**	**1,568**	**2,856**	**13,057**	**10,071**	**9,759**	**14,626**	**88,247**
Other lending to customers in the United Kingdom	**5,862**	**3,802**	**2,092**	**3,809**	**15,201**	**10,404**	**23,302**	**54,860**	**119,332**
Total United Kingdom	**27,231**	**18,743**	**3,660**	**6,665**	**28,258**	**20,475**	**33,061**	**69,486**	**207,579**
Other European Union	**4,094**	**16,113**	**1,976**	**3,278**	**11,088**	**9,247**	**10,137**	**30,425**	**86,358**
United States	**4,887**	**25,296**	**2,265**	**3,637**	**4,876**	**1,251**	**11,485**	**7,233**	**60,930**
Africa	**11,248**	**2,457**	**1,052**	**1,322**	**4,307**	**3,091**	**6,162**	**19,210**	**48,849**
Rest of the World	**1,967**	**6,616**	**1,189**	**3,758**	**4,367**	**4,485**	**3,154**	**1,707**	**27,243**
Total	**49,427**	**69,225**	**10,142**	**18,660**	**52,896**	**38,549**	**63,999**	**128,061**	**430,959**
At 31st December 2008									
United Kingdom									
Corporate lending	24,790	14,715	1,574	3,259	10,585	12,372	10,495	15,876	93,666
Other lending to customers in the United Kingdom	4,560	6,264	2,495	4,477	16,604	10,541	21,913	55,498	122,352
Total United Kingdom	29,350	20,979	4,069	7,736	27,189	22,913	32,408	71,374	216,018
Other European Union	5,254	17,618	2,707	5,681	11,808	10,272	10,138	28,585	92,063
United States	6,298	39,754	2,737	5,413	8,767	3,447	4,238	6,733	77,387
Africa	8,428	2,247	1,143	1,852	4,560	4,557	5,674	16,769	45,230
Rest of the World	3,832	8,150	2,167	1,545	9,267	4,008	5,666	3,005	37,640

Total	53,162	88,748	12,823	22,227	61,591	45,197	58,124	126,466	468,338

Table 10: Foreign outstandings in currencies other than the local currency of the borrower for countries where this exceeds 1% of total Group assets	As % of assets	Total £m	Banks and other financial institutions £m	Governments and official institutions £m	Commercial industrial and other private sectors £m
At 31st December 2009					
United States	**1.2**	**16,907**	**4,622**		12,285
At 31st December 2008					
United States	3.1	63,614	16,724	2	46,888
Cayman Islands	1.2	23,765	271		23,494
At 31st December 2007					
United States	2.1	26,249	7,151	6	19,092

At 31st December 2009, 2008 and 2007, there were no countries where Barclays had cross-currency loans to borrowers between 0.75% and 1% of total Group assets.

Table 11: Off-balance sheet and other credit exposures as at 31st December	2009 £m	2008 £m	2007 £m
Off-balance sheet exposures			
Contingent liabilities	**52,774**	66,310	45,774
Commitments	**207,275**	260,816	192,639
On-balance sheet exposures			
Trading portfolio assets	**151,344**	185,637	193,691
Financial assets designated at fair value held on own account	**41,311**	54,542	56,629
Derivative financial instruments	**416,815**	984,802	248,088
Available for sale financial investments	**56,483**	64,976	43,072

Table 12: Notional principal amounts of credit derivatives as at 31st December	2009 £m	2008 £m	2007 £m
Credit derivatives held or issued for trading purposes [a]	**2,016,796**	4,129,244	2,472,249

Table 13: Credit risk loans summary

At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Impaired loans	**16,240**	12,264	8,574	4,444	4,550
Accruing loans which are contractually overdue 90 days or more as to principal or interest	**5,317**	2,953	794	598	609
Impaired and restructured loans	**831**	483	273	46	51
Credit risk loans	**22,388**	15,700	9,641	5,088	5,210

Table 14: Credit risk loans

At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Impaired loans:					
United Kingdom	**4,519**	3,793	3,605	3,340	2,965
Other European Union	**4,004**	1,713	472	410	345
United States	**4,612**	4,397	3,703	129	230
Africa	**2,170**	1,996	757	535	831
Rest of the World	**935**	365	37	30	179
Total	**16,240**	12,264	8,574	4,444	4,550
Accruing loans which are contractually overdue 90 days or more as to principal or interest:					
United Kingdom	**2,312**	1,656	676	516	539
Other European Union	**951**	562	79	58	53

United States	**232**	433	10	3	
Africa	**1,739**	172	29	21	17
Rest of the World	**83**	130			
Total	**5,317**	2,953	794	598	609
Impaired and restructured loans:					
United Kingdom	**582**	367	179		5
Other European Union	**41**	29	14	10	7
United States	**180**	82	38	22	16
Africa	**22**		42	14	23
Rest of the World	**6**	5			
Total	**831**	483	273	46	51
Total credit risk loans:					
United Kingdom	**7,413**	5,816	4,460	3,856	3,509
Other European Union	**4,996**	2,304	565	478	405
United States	**5,024**	4,912	3,751	154	246
Africa	**3,931**	2,168	828	570	871
Rest of the World	**1,024**	500	37	30	179
Credit risk loans	**22,388**	15,700	9,641	5,088	5,210

Note

a Includes credit derivatives held as economic hedges which are not designated as hedges for accounting purposes.

Risk management

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Table 15: Potential problem loans At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
United Kingdom	**858**	883	419	465	640
Other European Union	**790**	963	59	32	26
United States	**553**	431	964	21	12
Africa	**488**	140	355	240	248
Rest of the World	**679**	39		3	3
Potential problem loans	**3,368**	2,456	1,797	761	929

Table 16: Interest foregone on credit risk loans	2009 £m	2008 £m	2007 £m
Interest income that would have been recognised under the original contractual terms			
United Kingdom	**392**	244	340
Rest of the World	**736**	235	91
Total	**1,128**	479	431

Interest income of approximately £413m (2008: £195m, 2007: £48m) from such loans was included in profit, of which £137m (2008: £72m, 2007: £26m) related to domestic lending and the remainder related to foreign lending.

In addition, a further £185m (2008: £135m, 2007: £113m) was recognised arising from impaired loans. Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the expected future cash flows for the purpose of measuring the impairment loss. £52m (2008: £42m, 2007: £93m) of this related to domestic impaired loans and the remainder related to foreign impaired loans.

Table 17: Analysis of impairment/provision charges At 31st December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Impairment charge/net specific provisions charge					
United Kingdom	**2,744**	1,817	1,593	1,880	1,382
Other European Union	**1,408**	587	123	92	75
United States	**1,525**	1,519	374	12	76

Africa	**814**	454	214	143	37
Rest of the World	**839**	207	2	(53)	4
Impairment on loans and advances	**7,330**	4,584	2,306	2,074	1,574
Impairment on available for sale assets	**670**	382	13	86	4
Impairment on reverse repurchase agreements	**43**	124			
Impairment charge	**8,043**	5,090	2,319	2,160	1,578
Other credit provisions charge/(release)	**28**	329	476	(6)	(7)
Impairment/provision charges	**8,071**	5,419	2,795	2,154	1,571

Table 18: Impairment/provisions charges ratios (Loan loss ratios)	**2009 %**	**2008 %**	**2007 %**	**2006 %**	**2005 %**
Impairment/provisions charges as a percentage of average loans and advances for the year:					
Impairment charge	**1.64**	1.01	0.64	0.66	0.58
Total	**1.64**	1.01	0.64	0.66	0.58
Amounts written off (net of recoveries)	**0.72**	0.61	0.49	0.61	0.50

Table 19: Analysis of allowance for impairment/provision for bad and doubtful debts	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Impairment allowance/specific provisions					
United Kingdom	**4,083**	2,947	2,526	2,477	2,266
Other European Union	**2,014**	963	344	311	284
United States	**2,518**	1,561	356	100	130
Africa	**1,349**	857	514	417	647
Rest of the World	**832**	246	32	30	123
Allowance for impairment provision balances	**10,796**	6,574	3,772	3,335	3,450
Average loans and advances for the year	**447,569**	453,413	357,853	313,614	271,421

Table 20: Allowance for impairment/provision balance ratios	2009 %	2008 %	2007 %	2006 %	2005 %
Allowance for impairment/provision balance at end of year as a percentage of loans and advances at end of year:					
Impairment balance	**2.29**	1.27	0.97	1.05	1.14
Total	**2.29**	1.27	0.97	1.05	1.14

Table 21: Movements in allowance for impairment/provisions charge for bad and doubtful debts[a]	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Allowance for impairment/provision balance at beginning of year	**6,574**	3,772	3,335	3,450	2,637
Acquisitions and disposals	**434**	307	(73)	(23)	555
Unwind of discount	**(185)**	(135)	(113)	(98)	(76)
Exchange and other adjustments	**(127)**	791	53	(153)	125
Amounts written off	**(3,380)**	(2,919)	(1,963)	(2,174)	(1,587)
Recoveries	**150**	174	227	259	222
Impairment/provision charged against profit	**7,330**	4,584	2,306	2,074	1,574
Allowance for impairment/provision balance at end of year	**10,796**	6,574	3,772	3,335	3,450

Table 22: Amounts written off	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
United Kingdom	**(1,569)**	(1,514)	(1,530)	(1,746)	(1,302)
Other European Union	**(453)**	(162)	(143)	(74)	(56)
United States	**(669)**	(1,044)	(145)	(46)	(143)
Africa	**(438)**	(187)	(145)	(264)	(81)
Rest of the World	**(251)**	(12)		(44)	(5)

Amounts written off	**(3,380)**	(2,919)	(1,963)	(2,174)	(1,587)

Note

a Does not reflect the impairment of available for sale assets or other credit risk provisions.

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Table 23: Recoveries	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
United Kingdom	**48**	131	154	178	160
Other European Union	**12**	4	32	18	13
United States	**6**	1	7	22	15
Africa	**80**	36	34	33	16
Rest of the World	**4**	2		8	18
Recoveries	**150**	174	227	259	222

Table 24: Impairment allowances/provision charged against profit[a]	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
New and increased impairment allowance/specific provision charge:					
United Kingdom	**3,123**	2,160	1,960	2,253	1,763
Other European Union	**1,625**	659	192	182	113
United States	**1,535**	1,529	431	60	105
Africa	**932**	526	268	209	109
Rest of the World	**896**	242	20	18	39
	8,111	5,116	2,871	2,722	2,129
Reversals of impairment allowance/specific provision charge:					
United Kingdom	**(331)**	(212)	(213)	(195)	(221)
Other European Union	**(205)**	(68)	(37)	(72)	(25)
United States	**(4)**	(9)	(50)	(26)	(14)
Africa	**(38)**	(36)	(20)	(33)	(56)
Rest of the World	**(53)**	(33)	(18)	(63)	(17)
	(631)	(358)	(338)	(389)	(333)
Recoveries	**(150)**	(174)	(227)	(259)	(222)
Net charge to profit	**7,330**	4,584	2,306	2,074	1,574

Table 25: Total impairment/specific provision charges for bad and doubtful debts by industry	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
United Kingdom:					
Financial services	**485**	76	32	64	22
Agriculture, forestry and fishing	**2**	4		5	9
Manufacturing	**112**	118	72	1	120
Construction	**54**	15	14	17	14
Property	**113**	80	36	15	18
Energy and water		1	1	(7)	1
Wholesale and retail distribution and leisure	**314**	59	118	88	39
Transport	**13**	3	3	19	(27)
Postal and communication	**17**		15	15	3

Business and other services	**175**	234	81	133	45
Home loans	**33**	28	1	4	(7)
Other personal	**1,376**	1,178	1,187	1,526	1,142
Finance lease receivables	**50**	21	33		3
	2,744	1,817	1,593	1,880	1,382
Overseas	**4,586**	2,767	713	194	192
Impairment/specific provision charges	**7,330**	4,584	2,306	2,074	1,574

The category Other personal includes credit cards, personal loans, second liens and personal overdrafts.

The industry classifications in Tables 25, 26 and 27 have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even though the Parent s predominant business may be in a different industry.

Note

a Does not reflect the impairment of available for sale assets, reverse repurchase agreements or other credit risk provisions.

Table 26: Allowance for impairment/specific provision for bad and doubtful debts by industry

	2009		2008		2007		2006		2005	
	£m	%	£m	%	£m	%	£m	%	£m	%
United Kingdom:										
Financial services	**493**	**4.6**	81	1.2	103	2.7	67	2.0	26	0.8
Agriculture, forestry and fishing			1	0.0	5	0.1	17	0.5	12	0.3
Manufacturing	**142**	**1.3**	185	2.8	65	1.7	85	2.5	181	5.2
Construction	**41**	**0.4**	18	0.3	16	0.4	16	0.5	13	0.4
Property	**90**	**0.8**	114	1.7	54	1.4	26	0.8	24	0.7
Energy and water			1	0.0	1				18	0.5
Wholesale and retail distribution and leisure	**182**	**1.7**	43	0.7	102	2.7	81	2.4	99	2.9
Transport		**0.0**		0.0	11	0.3	24	0.7	32	0.9
Postal and communication	**27**	**0.3**	33	0.5	25	0.7	12	0.4	2	0.1
Business and other services	**218**	**2.0**	236	3.6	158	4.2	186	5.6	102	3.0
Home loans	**63**	**0.6**	46	0.7	15	0.4	10	0.3	50	1.4
Other personal	**2,762**	**25.5**	2,160	32.9	1,915	50.8	1,953	58.6	1,696	49.2
Finance lease receivables	**65**	**0.6**	29	0.4	56	1.5			11	0.3
	4,083	**37.8**	2,947	44.8	2,526	67.0	2,477	74.3	2,266	65.7
Overseas	**6,713**	**62.2**	3,627	55.2	1,246	33.0	858	25.7	1,184	34.3
Total	**10,796**	**100**	6,574	100.0	3,772	100.0	3,335	100.0	3,450	100.0

Table 27: Analysis of amounts written off and recovered by industry

	Amounts written off for the year					Recoveries of amounts previously written off				
	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom:										
Financial services	**72**	88	6	13	2	**3**	4	1		1
Agriculture, forestry and fishing	**2**	6	5	8	3			2	1	
Manufacturing	**162**	53	83	73	47	**4**	8	7	21	11
Construction	**34**	19	23	17	15	**3**	2	3	2	1
Property	**141**	27	16	23	4	**3**	2	10	6	1
Energy and water	**2**	1		1	22	**4**			2	
Wholesale and retail distribution and leisure	**182**	137	109	120	85	**8**	7	12	14	25
Transport	**14**	10	13	11	29	**1**	1		1	10
Postal and communication	**23**	3	3	5	15					
Business and other services	**197**	153	83	124	83	**5**	10	22	17	14
Home loans	**16**	4	1		2		1	1	7	4
Other personal	**705**	960	1,164	1,351	992	**13**	88	96	107	92
Finance lease receivables	**19**	53	24		3	**4**	8			1
	1,569	1,514	1,530	1,746	1,302	**48**	131	154	178	160
Overseas	**1,811**	1,405	433	428	285	**102**	43	73	81	62
Total	**3,380**	2,919	1,963	2,174	1,587	**150**	174	227	259	222

Risk management

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Table 28: Total impairment allowance/(provision) coverage of credit risk loans	2009 %	2008 %	2007 %	2006 %	2005 %
United Kingdom	**55.1**	50.7	56.6	64.2	64.6
Other European Union	**40.3**	41.8	60.9	65.1	70.1
United States	**50.1**	31.8	9.5	64.9	52.8
Africa	**34.3**	39.5	62.1	73.2	74.3
Rest of the World	**81.3**	49.2	86.5	100.0	68.7
Total coverage of credit risk loans	**48.2**	41.9	39.1	65.6	66.2

Table 29: Total impairment allowance/(provision) coverage of potential credit risk lending (CRLs and PPLs)	2009 %	2008 %	2007 %	2006 %	2005 %
United Kingdom	**49.4**	44.0	51.8	57.3	54.6
Other European Union	**34.8**	29.5	55.1	61.0	65.9
United States	**45.1**	29.2	7.6	57.1	50.4
Africa	**30.5**	37.1	43.4	51.5	57.8
Rest of the World	**48.9**	45.5	86.5	91.0	67.6
Total coverage of potential credit risk lending	**41.9**	36.2	33.0	57.0	56.2

Risk management

Supervision and regulation

The Group s operations, including its overseas offices, subsidiaries and associates, are subject to a significant body of rules and regulations that are a condition for authorisation to conduct banking and financial services business, constrain business operations and affect financial returns. These include reserve and reporting requirements and conduct of business regulations. These requirements are imposed by the relevant central banks and regulatory authorities that supervise the Group in the jurisdictions in which it operates. The requirements reflect global standards developed by, among others, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. They also reflect requirements derived from EU directives.

In the UK, the Financial Services Authority (FSA) is the independent body responsible for the regulation and supervision of deposit taking, life insurance, home mortgages, general insurance and investment business. Barclays Bank PLC is authorised by the FSA under the Financial Services and Markets Act 2000 to carry on a range of regulated activities within the UK and is subject to consolidated supervision by the FSA. In its role as supervisor, the FSA seeks to maintain the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers and the financial system. The FSA s continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

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

The Banking Act 2009 (the Banking Act) provides a permanent regime to allow the FSA, the UK Treasury and the Bank of England to resolve failing banks in the UK. Under the Banking Act, these authorities are given powers, including (a) the power to issue share transfer orders pursuant to which all or some of the securities issued by a bank may be transferred to a commercial purchaser or Bank of England entity and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. A share transfer order can extend to a wide range of securities including shares and bonds issued by a UK bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such shares and bonds. The Banking Act powers apply regardless of any contractual restrictions and compensation may be payable in the context of both share transfer orders and property appropriation.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank or its holding company and its former group undertakings for reasonable consideration, in order to enable any transferee or successor bank of the UK bank to operate effectively. There is also power for the Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect. In addition, the Banking Act gives the Bank of England statutory responsibility for financial stability in the UK and for the oversight of payment systems.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme FSCS) where an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. 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 FSCS. Most claims made in respect of 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 FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises funds, raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group s results and financial condition. Further details can be found in the Competition and Regulatory Matters note to the financial statements on page 248.

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

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

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

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US banking subsidiaries 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 (BHC Act), the Foreign Bank Supervision Enhancement Act of 1991, the Financial Services Modernization Act of 1999 and the USA PATRIOT Act of 2001. Such laws impose restrictions on the activities of Barclays, including its US banking subsidiaries and the Bank s US branches, as well as prudential restrictions, such as limits on extensions of credit by the Bank s US branches and the US banking subsidiaries to affiliates. The Bank s New York and Florida branches are subject to extensive federal and state supervision and regulation by the FRB and the New York and Florida banking supervisors. Barclays Bank PLC also operates a federal agency in California that is licensed by and subject to regulation and examination by the OCC. Barclays Bank Delaware, a Delaware-chartered commercial bank, is subject to supervision and regulation by the Delaware banking supervisor and the Federal Deposit Insurance Corporation (FDIC). Only the deposits of Barclays Bank Delaware are insured by the FDIC.

Barclays PLC, Barclays Bank PLC and Barclays Group US Inc. are bank holding companies registered with the FRB. Each has elected to be treated as a financial holding company under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to registered bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain the financial holding company status of each of Barclays PLC, Barclays Bank PLC and Barclays Group US Inc., Barclays Bank PLC is required to meet or exceed certain capital ratios and to be deemed to be well managed . Barclays Bank Delaware must also meet certain capital requirements, be deemed to be well managed and must have at least a satisfactory rating under the Community Reinvestment Act of 1977.

Risk management

Supervision and regulation

continued

Barclays US securities broker/dealer, investment advisory and Investment banking operations are subject to ongoing supervision and regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and other government agencies and self-regulatory organisations as part of a comprehensive scheme of regulation of all aspects of the securities business under the US federal and state securities laws. Barclays subsidiaries in the US are also subject to regulation by applicable federal and state regulators of their activities in the mortgage servicing business.

Regulatory Developments

In the wake of the financial crisis there will be regulatory change that will have a substantial impact on all financial institutions, including the Group. The full extent of this impact and its timing is not yet fully clear, with reform programmes being developed at global, EU and national level. A programme to reform the global regulatory framework was agreed by G20 Heads of Government in April 2009, building on an agreement that had been reached by the G20 in November 2008. The EU is following a similar programme of reform following the May 2008 roadmap and implementing G20 requirements. There is a substantial degree of commonality to these programmes covering issues of capital and liquidity regulation, risk management and accounting standards.

The Financial Stability Board (FSB) has been designated by the G20 as the body responsible for co-ordinating the delivery of the reform programme. It has initiated work developing guidelines for the supervision of systemically significant institutions. It is required to present its proposals to the November 2010 meeting of G20 Heads of Government. The FSB is also working on approaches to the resolution of systemically significant institutions that will include the preparation of Recovery and Resolution Plans, sometimes called living wills . Further detail is awaited from the FSB, although the FSA has initiated a pilot project with a group of large UK banks.

In execution of the mandate given by the G20 and the FSB, the Basel Committee on Banking Supervision has agreed on increased capital requirements for trading book activities to be introduced from the end of 2010. In December 2009, the Basel Committee issued proposals for consultation on enhanced capital and liquidity requirements. These proposals would refine the definition of regulatory capital to have a greater focus on core equity, would enhance capital requirements in respect of counterparty risk, introduce measures to make capital requirements less procyclical, establish a leverage ratio and require banks to hold greater buffers of high quality liquid instruments. The Basel Committee will conduct a quantitative impact study on its proposals in the course of the first half of 2010, with a view to finalising its requirements by the end of the year and with the aim of commencing the transition to the new capital and liquidity regime from the end of 2012.

The Basel Committee s trading book proposals are being implemented in the EU by amendment to the Capital Requirements Directive (CRD). The CRD has also been amended to tighten the definition of hybrid capital and the operation of the large exposures regime in relation to interbank transactions. The EU has indicated that it will further amend the CRD to implement revised global standards on capital adequacy and on liquidity that are being consulted on by the Basel Committee. The EU will also conduct a Europe-focused quantitative impact study. In addition, other amendments are being made to the EU framework of directives, including to the Directive and to the Directive on Deposit Guarantee Schemes. Further amendments to EU regulatory requirements are likely as the EU develops its response to the financial crisis, including the structure of the regulatory system in Europe as proposed in the report of a high-level Commission group published in February 2009. Among other things, it is proposed by the end of 2010 to create a European Banking Authority charged with the development of a single rulebook for banks in the EU. National authorities will remain responsible for the supervision of financial institutions.

In the UK, the Treasury issued a White Paper Reforming Financial Markets in July 2009 that foreshadowed the introduction of a Financial Services Bill in November. The Financial Services Bill will, among other things, create a Council for Financial Stability to co-ordinate the activities of the UK tripartite authorities (HM Treasury, the FSA and the Bank of England) to deal with issues related to financial stability and systemic risk. It will also place a duty on the FSA to make rules requiring financial institutions to create and maintain Recovery and Resolution plans, require the FSA to make general rules about remuneration policies of regulated firms, give the FSA a wider authority to prohibit short selling and permit collective court actions as a means by which redress can be sought in cases where there has been a mass failure of practice that has affected significant numbers of consumers. The Financial Services Bill is currently going through the Parliamentary process and its likely final shape remains uncertain. In response to the introduction of the Financial Services Bill, the Conservative Party indicated in July 2009 that, were it to have a majority following the General Election that must take place by early June 2010, it would transfer responsibility for prudential supervision to the Bank of England and create a Consumer Protection Agency to focus on issues of business conduct.

The Chancellor of the Exchequer commissioned two major reviews of the regulation of banks that reported in 2009. Lord Turner, the Chairman of the FSA was requested to undertake a review of banking regulation, while Sir David Walker was asked to review the corporate governance of financial institutions. The Turner Review, published in March 2009, sets out a comprehensive approach to reform the regulation of banks, and for higher standards of capital, liquidity and risk management. It also sets out a more intensive and intrusive approach to supervision. This was already in development as part of the FSA s Supervisory Enhancement Programme that has seen an increase in the resources devoted to supervision, the intensity of supervision and the penalties that may be applied in any enforcement action. Pending international agreement, the FSA has unilaterally set minimum capital requirements that are very substantially increased from pre-crisis levels. Similarly, the FSA is introducing a regulatory liquidity regime in advance of international agreement on the Basel proposals. The Walker Review, published in November 2009, sets out proposals for reforms to the corporate governance of financial institutions. The Financial Services Bill referred to above will give the FSA enabling powers to implement some of these.

In the United States, as elsewhere, recent market disruptions and economic conditions have led to numerous proposals for changes to and significant increases in the regulation of the financial services industry. These proposals include: possible limitations on the activities of banking institutions such as prohibitions on engaging in proprietary trading operations that are not related to serving customers; proposals that would subject large and systemically important banks and financial institutions to enhanced regulatory requirements; and financial market and trading reforms such as the Wall Street Reform and Consumer Protection Act 2009, which was passed by the US House of Representatives in December 2009 and which would, if enacted, among other things, increase regulation of over-the-counter derivatives by imposing clearing and execution requirements on swap dealers and major swap market participants. However, these and other proposals are still under consideration and there is uncertainty as to whether and in what forms such proposals ultimately may be enacted or adopted and therefore what impact they will have on the Group and its businesses in the United States. The Obama Administration has also proposed the levying of a Financial Crisis Responsibility Fee (FCRF). The Administration has said that the FCRF will apply to the US subsidiaries of a foreign bank or financial company if the consolidated assets of the US subsidiaries exceed £50bn. As legislation implementing the FCRF has not yet been proposed, the impact of the FCRF on the Group cannot yet be determined.

The credit card-related activities of the Group in the US will be significantly affected by the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (Credit CARD Act) which was passed by Congress. The Credit CARD Act will have the effect of restricting many credit card pricing and marketing practices. Among the numerous provisions, which come into effect at various times through August 2010, are those that prohibit increasing rates on existing balances and over limit fees in most instances, restrict increasing fees and rates prospectively, restrict what penalty fees can be assessed, regulate how payments are to be allocated to different balances and how the billing process is to work, and revises all communications to cardholders.

Directors report

Business Review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31st December 2009 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a Business Review). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the Business Review can be found in the following sections of the Annual Report:

Profit Attributable

The profit attributable to equity shareholders of Barclays PLC for the year amounted to £9,393m, compared with £4,382m in 2008.

Dividends

The final dividend for the year ended 31st December 2009 of 1.5p per ordinary share of 25p each has been agreed by the Directors. The final dividend was announced on 16th February 2010 for payment on 19th March 2010 in respect of the ordinary shares registered at the close of business on 26th February 2010. With the interim dividend of 1.0p per ordinary share that was paid on 11th December 2009, the total distribution for 2009 is 2.5p (2008: 11.5p) per ordinary share. The interim and final dividend for 2009 amounted to £289m (2008: £906m).

Dividend Reinvestment Plan

Shareholders may have their dividends reinvested in Barclays PLC ordinary shares by participating in the Barclays Dividend Reinvestment Plan (DRIP). The DRIP is available to all shareholders, including members of Barclays Sharestore, provided that they do not live in, and are not subject to the jurisdiction of, any country where their participation in the DRIP would require Barclays or The Plan Administrator to Barclays DRIP to take action to comply with local government or regulatory procedures or any similar formalities. Any shareholder wishing to obtain details and a form to join the DRIP should write to: The Plan Administrator to Barclays DRIP, Aspect House, Spencer Road, Lancing BN99 6DA, United Kingdom, or, by telephoning 0871 384 2055 (calls to this number are charged at 8p per minute using a BT landline. Other telephone providers costs may vary) from the UK or +44 121 415 7004 from overseas.

Share Capital

At the 2008 Annual General Meeting, shareholders approved the creation of Sterling, Dollar, Euro and Yen preference shares (preference shares) in order to provide the Group with more flexibility in managing its capital resources. As at 5th March 2010 (the latest practicable date for inclusion in this report) no preference shares have been issued.

The Company did not repurchase any ordinary shares of 25p each during 2009 (2008: 36,150,000 at a total cost of £171,923,243).

As at 5th March 2010, the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 837,620,130 ordinary shares. The authorised ordinary share capital was increased by 7,000 million ordinary shares at the Annual General Meeting held on 23rd April 2009.

The issued ordinary share capital was increased by 3,040 million ordinary shares during 2009. In addition to those issued as a result of the exercise of options under the Sharesave and Executive Share Option Schemes during the year, the following share issues took place:

During the period 7th January to 30th June 2009, 2,642 million ordinary shares were issued following the conversion of Mandatorily Convertible Notes.

On 28th October 2009, 379 million ordinary shares were issued following the exercise of warrants to subscribe for ordinary shares.

At 31st December 2009, the issued ordinary share capital totalled 11,411,577,230 shares. Ordinary shares represent 100% of the total issued share capital as at 31st December 2009. Since 31st December 2009 628.3 million ordinary shares have been issued, of which 626.8 million were issued on exercise of Warrants on 17th February 2010. As at 5th March 2010, issued ordinary share capital was 12,039,880,284.

The Company s Articles of Association, a summary of which can be found in the Shareholder Information section on pages 328 to 335, contain the following details, which are incorporated into this report by reference:

The structure of the Company s capital, including the rights and obligations attaching to each class of shares.

Restrictions on the transfer of securities in the Company, including limitations on the holding of securities and requirements to obtain approvals for a transfer of securities.

Restrictions on voting rights.

The powers of the Directors, including in relation to issuing or buying back shares in accordance with the Companies Act 2006. It will be proposed at the 2010 AGM that the Directors be granted new authorities to allot and buy-back shares under the Companies Act 2006.

Rules that the Company has about the appointment and removal of Directors or amendments to the Company s Articles of Association.

Employee Benefit Trusts (EBTs) operate in connection with certain of the Group s Employee Share Plans (Plans). The trustees of the EBTs may exercise all rights attached to the shares in accordance with their fiduciary duties other than as specifically restricted in the relevant Plan governing documents. The trustees of the EBTs have informed the Company that their normal policy is to abstain from voting in respect of the Barclays shares held in trust. The trustees of the Sharepurchase EBT may vote in respect of Barclays shares held in the Sharepurchase EBT, but only at the discretion of the participants. The trustees will not otherwise vote in respect of shares held in the Sharepurchase EBT.

Mandatorily Convertible Notes

On 27th November 2008, Barclays Bank PLC issued £4,050m of 9.75% Mandatorily Convertible Notes (MCNs) maturing on 30th September 2009 to: Qatar Holding LLC; Challenger Universal Limited and entities representing the beneficial interests of HH Sheikh Mansour Bin Zayed Al Nahyan, a member of the Royal Family of Abu Dhabi; existing institutional shareholders; and other institutional investors. If not converted at the holders option beforehand, these instruments mandatorily converted to ordinary shares of Barclays PLC on 30th June 2009. The conversion price was £1.53276 and, after taking into account MCNs that were converted on or before 31st December 2008, resulted in the issue of 2,642 million new ordinary shares.

Directors report

continued

Warrants

On 31st October 2008, Barclays PLC issued, in conjunction with a simultaneous issue of Reserve Capital Instruments issued by Barclays Bank PLC, warrants to subscribe for up to 1,516.9 million new ordinary shares at a price of £1.97775 to Qatar Holding LLC and HH Sheikh Mansour Bin Zayed Al Nahyan. The warrants may be exercised at any time up to close of business on 31st October 2013.

If there is a change of control of Barclays PLC following a takeover bid, Barclays PLC must (so far as legally possible) use all reasonable endeavours to cause the corporation which then controls Barclays PLC to execute a deed poll providing that the holders of the warrants shall have the right (during the period in which the warrants are exercisable) to exercise the warrants into the class and amount of shares and other securities and property receivable upon such a takeover by the holders of the number of ordinary shares as would have been issued on exercise of the warrants had such warrants been exercised immediately prior to the completion of such takeover.

The warrants contain provisions for the adjustment of the gross number of ordinary shares in the event of the occurrence of certain dilutive events including, amongst others, extraordinary dividends, bonus issues, alterations to the nominal value of ordinary shares and rights issues.

As at 5th March 2010, a total of 1,006.1 million ordinary shares have been issued on exercise of warrants to subscribe for ordinary shares.

Substantial Shareholdings

Substantial shareholders do not have different voting rights from those of other shareholders. As at 5th March 2010, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the FSA of the following holdings of voting rights in its shares:

Holder	Number of Barclays Shares	% of total voting rights attaching to issued share capital	Number of warrants	% of total voting rights attaching to issued share capital[a]
BlackRock, Inc.[b]	805,969,166	7.06		
Qatar Holding LLC	813,964,552	6.76	379,218,809	3.15
Nexus Capital Investing Ltd	626,835,443	5.49	131,602,175	1.15
Legal & General Group Plc	483,625,057	4.01		
Appleby Trust (Jersey) Limited[c]	353,373,992	3.10		

Board Membership

The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical and biographical details of the Board members are set out on pages 10 and 11. Simon Fraser and Reuben Jeffery were appointed as non-executive Directors with effect from 10th March 2009 and 16th July 2009 respectively.

The following Directors left the Board during 2009:

Professor Dame Sandra Dawson on 23rd April 2009.

Sir Nigel Rudd on 23rd April 2009.

Patience Wheatcroft on 16th June 2009.

Stephen Russell on 31st October 2009.

Frits Seegers on 3rd November 2009.

Retirement and Re-election of Directors

In accordance with its Articles of Association, one-third (rounded down) of the Directors of Barclays PLC are required to retire by rotation at each Annual General Meeting (AGM), together with Directors appointed by the Board since the last AGM. The retiring Directors are eligible to stand for re-election. In addition, the UK Combined Code on Corporate Governance (the Code), recommends that every Director should seek re-election by shareholders at least every three years.

All members of the Board exceptionally offered themselves for reelection at the Barclays Annual General Meeting held in April 2009. Going forward, the Group Chairman, Deputy Chairman and Chairmen of each principal Board Committee will stand for re-election on an annual basis. One-third of the remaining Directors (excluding Directors appointed since the last AGM) will retire by rotation annually. The Directors offering themselves for re-election in such a manner at the 2010 AGM are Marcus Agius, David Booth, Sir Richard Broadbent and Sir Michael Rake. The Directors retiring by rotation at the 2010 AGM and offering themselves for re-election are Sir Andrew Likierman and Chris Lucas. In addition, Reuben Jeffery, who was appointed as a Director since the last AGM, will be offering himself for re-election at the 2010 AGM.

Directors Interests

Directors interests in the shares of the Group on 31st December 2009 are shown on page 178.

Directors Emoluments

Information on emoluments of Directors of Barclays PLC, in accordance with the Companies Act 2006 and the Listing Rules of the United Kingdom Listing Authority, is given in the Remuneration report on pages 170 to 186 and in Note 42 to the accounts.

Directors Indemnities

The Board believes that it is in the best interests of the Group to attract and retain the services of the most able and experienced Directors by offering competitive terms of engagement, including the granting of indemnities on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31st December 2009 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Activities and likely Future Developments

The Group is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking and wealth management. The Group operates through branches, offices and subsidiaries in the UK and overseas. An indication of likely future developments is set out in the Group Chief Executive s Review on pages 14 to 19.

Community Involvement

Barclays has an extensive community programme covering many countries around the world. The Group provides funding and support to over 7,000 charities and voluntary organisations, ranging from small, local charities, like Passage (UK), to international organisations like Unicef. We also have a very successful employee programme which in 2009 saw more than 58,000 employees and pensioners worldwide taking part in Barclays-supported volunteering, giving and fundraising activities. Further information on

Notes

a The percentages of voting rights detailed above have been calculated without including the new shares to be issued when the warrants are exercised. This results in the percentage figures being artificially high.
b The number of Barclays shares includes 8,003,236 contracts for difference to which voting rights are attached.
c The number of Barclays shares includes 192,860,970 Total Return Swap shares to which voting rights are attached.

our community involvement is given on pages 22-23 and 29. The total commitment for 2009 was £54.9m (2008: £52.2m). The Group committed £27.4m in support of the community in the UK (2008: £27.7m) and £27.5m was committed in international support (2008: £24.5m). The UK commitment includes £19.3m of charitable donations (2008: £19.6m).

Political Donations

The Group did not give any money for political purposes in the UK or the rest of the EU nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. Absa Group Limited, in which the Group acquired a majority stake in 2005, made donations totalling £213,982 in 2009 (2008: £186,589) in accordance with its policy of making political donations to the major South African political parties as part of their Democracy Support Programme. Donations are made to parties with more than three seats in the National Parliament as confirmed by the Independent Electoral Commission. Support for the deepening of democracy in South Africa remains paramount for the government. The Group made no other political donations in 2009.

At the AGM in 2009, shareholders gave a limited authority for Barclays PLC and its subsidiaries to make political donations and incur political expenditure, within an agreed limit, as a precautionary measure in light of the wide definitions in the Companies Act 2006. This was similar to an authority given by shareholders in 2008. This authority, which has not been used, expires at the conclusion of the AGM held this year, or, if earlier, 30th June 2010. The risk of inadvertently breaching the Companies Act 2006 remains and the Directors consider it prudent to seek a similar authority from shareholders. A resolution to authorise Barclays PLC and its subsidiaries to make EU political donations and incur EU political expenditure up to a maximum aggregate sum of £125,000 is therefore being proposed at the Barclays PLC 2010 AGM.

Employee Involvement

Barclays is committed to ensuring that employees share in the success of the Group. Staff are encouraged to participate in share option and share purchase schemes and have a substantial sum invested in Barclays shares. Employees are kept informed of matters of concern to them in a variety of ways, including the corporate news magazines, intranets, briefings and mobile phone SMS messaging. These communications help achieve a common awareness among employees of the financial and economic factors affecting the performance of Barclays. Barclays is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. Annual Employee Opinion Surveys are undertaken across the Group with results being reported to the Board and Board HR and Remuneration Committee, all employees and to our European Works Council, Africa Forum, Unite (Amicus section), our recognised union in the UK and other recognised unions worldwide. Roadshows and employee forums also take place. In addition, Barclays undertakes regular and formal consultations with our recognised trade unions and work councils internationally.

Diversity and Inclusion

The diversity agenda at Barclays seeks to include customers, colleagues and suppliers. Our objective is to recruit and retain the best people, regardless of (but not limited to) race, religion, age, gender, sexual orientation or disability. We strive to ensure our workforce reflects the communities in which we operate and the international nature of the organisation. We recognise that diversity is a key part of responsible business strategy in support of our increasingly global business. In the UK, Barclays is committed to providing additional support to employees with disabilities and making it easier for them to inform us of their specific requirements, including the introduction of a dedicated intranet site and disability helpline. Through our UK Reasonable Adjustments Scheme, appropriate assistance can be given, including both physical workplace adjustments, and relevant training and access to trained mentors is also provided for disabled employees. A wide range of recruitment initiatives have been taken to increase the number of people with disabilities working in Barclays.

Health and Safety

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. Barclays regards legislative compliance as a minimum and, where appropriate, we seek to implement higher standards. Barclays also recognises its responsibilities towards all persons on its premises, such as contractors, visitors and members of the public, and ensures, so far as is reasonably practicable, that they are not exposed to significant risks to their health and safety. Barclays regularly reviews its Statement of Health and Safety Commitment, issued with the authority of the Board and which applies to all business areas in which Barclays has operational control. In this statement Barclays commits to:

demonstrate personal leadership that is consistent with this commitment;

provide the appropriate resources to fulfil this commitment;

carry out risk assessments and take appropriate actions to mitigate the risks identified;

consult with our employees on matters affecting their health and safety;

ensure that appropriate information, instruction, training and supervision are provided;

appoint competent persons to provide specialist advice; and

review Barclays Health and Safety Group Process and the Statement of Commitment, at regular intervals.

Barclays monitors its health and safety performance using a variety of measurements on a monthly basis and the Board HR and Remuneration Committee receives annual reports on health and safety performance from the Group Human Resource Director. In 2009, a Health and Safety Steering Committee was established to ensure decisions are taken relating to the Health and Safety Global Standard and to oversee the operation of a coordinated Health and Safety control framework. The Committee meets on a quarterly basis and produces a quarterly report for the HR Risk Committee. As part of its Partnership Agreement with Unite (Amicus section), Barclays currently funds full time Health and Safety Representatives.

Creditors Payment Policy

Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, in a timely manner. Barclays policy follows the Department for Business, Innovation & Skills Prompt Payment Code, copies of which can be obtained from the Prompt Payment Code website at www.promptpaymentcode.org.uk. Part 5 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 requires disclosure of trade creditor payment days. Disclosure is required by the Company, rather than the Group. The Group s principal trading subsidiary in the UK is Barclays Bank PLC, the accounts for which are prepared in accordance with IFRS.

Directors report

continued

The components for the trade creditor calculation are not easily identified. However, by identifying as closely as possible the components that would be required if item E.4 (trade creditors) in format I of Schedule 1 of these Regulations applied, the trade creditor payment days for Barclays Bank PLC for 2009 were 27 days (2008: 24 days). This is an arithmetical calculation and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

Essential Business Contracts

There are no persons with whom the Group has contractual or other arrangements that are considered essential to the business of the Group.

Contracts of Significance

Under the terms of a stock purchase agreement dated 16th June 2009 which was entered into by and among Barclays Bank PLC, Barclays PLC and BlackRock, Inc. (BlackRock), Barclays agreed to sell BGI to BlackRock. The sale completed on 1st December 2009 following the receipt of all necessary shareholder and regulatory approvals and satisfaction of other closing conditions. The consideration at completion was US$15.2bn (£9.5bn), including 37.567 million new BlackRock shares, giving Barclays an economic interest of 19.9% of the enlarged BlackRock group. Barclays has provided BlackRock with customary warranties and indemnities in connection with the sale. Barclays Bank will also continue to provide support in respect of certain BGI cash funds until December 2013 and indemnities in respect of certain of BGI s fully collateralised securities lending activities until 30th November 2012.

Research and development

In the ordinary course of business the Group develops new products and services in each of its business units.

Financial Instruments

The Group s financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure to market risk, credit risk and liquidity risk are set out on pages 122 to 132 under the headings, Barclays risk management strategy , Credit risk management , Market risk management , Liquidity risk management and Derivatives and in Note 14 and Notes 47 to 49 to the accounts.

Events after the Balance Sheet Date

On 1st January 2010, the Group acquired 100% ownership of Standard Life Bank Plc for a consideration of £227m in cash. The assets acquired include a savings book of approximately £5.8bn, and a mortgage book with outstanding balances of approximately £7.5bn.

As announced on 3rd November 2009, the Group has made changes to its business structure, which will be reflected in the Group s external financial reporting for periods commencing 1st January 2010. The segmental information presented in this Annual Report represents the business segments and other operations used for management and reporting purposes during the year ended 31st December 2009.

On 17th February 2010, 626.8 million of the 758.4 million warrants held by PCP Gulf Invest 3 Limited (a subsidiary of Nexus Capital Investing Limited) were exercised for an aggregate exercise price of approximately £1,240m. As a result 626.8 million new ordinary shares were issued representing a 5.2% ownership in the Group s enlarged share capital.

The Auditors

The Board Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Group, including monitoring the Group s use of the auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. More details on this can be found on page 162 and Note 9 to the accounts. PricewaterhouseCoopers LLP have been the Company s auditors for many years. Having reviewed the independence and effectiveness of the external auditors, the Committee has not considered it necessary to date to require them to tender for the audit work. The external auditors are required to rotate the audit partners

responsible for the Group and subsidiary audits every five years. The current lead audit partner, who has now been in place for five years, will be replaced for the 2010 year-end. There are no contractual obligations restricting the Company s choice of external auditor. The Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2010 AGM. So far as each of the Directors are aware, there is no relevant audit information of which the Company s auditors are unaware. Each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company s auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company s auditors in connection with preparing their report.

The Annual General Meeting

The Barclays PLC AGM will be held at the Royal Festival Hall on Friday 30th April 2010. The Notice of Meeting is included in a separate document sent to shareholders with this report. A summary of the resolutions being proposed at the 2010 AGM is set out below.

Ordinary Resolutions

To receive the Directors and Auditors Reports and the audited accounts for the year ended 31st December 2009.

To approve the Directors Remuneration Report for the year ended 31st December 2009.

To re-elect the following Directors:

Reuben Jeffery III

Marcus Agius

David Booth

Sir Richard Broadbent

Sir Michael Rake

Sir Andrew Likierman

Chris Lucas

To reappoint PricewaterhouseCoopers LLP as auditors of the Company.

To authorise the Directors to set the remuneration of the auditors.

To authorise Barclays PLC and its subsidiaries to make political donations and incur political expenditure.

To renew the authority given to Directors to allot securities.

To approve and adopt the rules of the Barclays Group SAYE Share Option Scheme.

Special Resolutions

To renew the authority given to the Directors to allot securities for cash other than on a pro-rata basis to shareholders and to sell treasury shares.

To renew the Company s authority to purchase its own shares.

To permit General Meetings to continue to be called on 14 clear days notice.

To adopt new Articles of Association.

This is only a summary of the business to be transacted at the meetings and you should refer to the Notice of Meeting for full details.

By order of the Board

Lawrence Dickinson

Company Secretary

9th March 2010

Corporate governance

Corporate governance report

Group Chairman s Introduction

Barclays performed strongly in 2009, despite it being another challenging year for the financial services industry. Once again, a number of difficult decisions had to be taken as the Board sought to act in the best interests of shareholders.

Review of 2009

The year started with confidence in the banking sector as a whole at an extremely low ebb. The market was unsure as to the strength of banks balance sheets and the extent of further losses from both credit market exposures and the global economic downturn. In Barclays case, the share price was extremely weak during January and the Board took its first key decision in deciding to issue an open letter from the Group Chief Executive and myself on 26th January 2009 to address the principal causes for concern. We felt that it was important to make this announcement, in what were exceptional circumstances, to reassure our stakeholders that we were well funded and profitable.

In March 2009, we announced that the Board did not believe it was in the interests of investors, depositors or clients to participate in HM Treasury s Asset Protection Scheme. This decision was taken after careful consideration of the economics of participation and detailed stress testing of our capital position and resources, the results of which were confirmed by the FSA.

In March 2009, we explored the potential sale of our iShares business with a number of interested parties and announced, in April 2009, the sale of that business to a limited partnership established by CVC Capital Partners Group. Following a superior offer from BlackRock, Inc. for the sale of the whole of the Barclays Global Investors business (BGI), the Board concluded that it would be in the best interests of Barclays and for the benefit of shareholders to accept that offer. The resolution for the sale of BGI was put to shareholders at a General Meeting on 6th August 2009 and 99.9% of votes cast were in favour of the transaction.

During the second half of 2009, the Board took the decision to restructure the Group s credit market exposures. We announced in September 2009 that we were restructuring a significant tranche of such exposures in order to secure more stable risk-adjusted returns for shareholders over time. And, while we did not pay a final dividend for 2008, we were able to resume dividend payments in the second half of 2009 and it is our intention to pay quarterly dividends going forward.

It was essential to keep the Board fully informed during the discussions on all these matters and the Directors were updated regularly at Board meetings and through ad hoc circulation of information. A significant number of additional Board and Board Committee meetings were held, often at short notice, to discuss and take those decisions a total of 27 Board meetings were held during the year and each of our Board Committees held additional meetings. It was also important to keep our shareholders informed and, in addition to regulatory announcements, meetings were held with our institutional shareholders and other investor groups to discuss the financial crisis and how we have responded. Briefings on these meetings were reported to the Board to ensure that all Directors were aware of any concerns raised by our shareholders.

Corporate Governance in Barclays

As Chairman, a key part of my role is to ensure that the composition of the Board is appropriate; that appropriate behaviours are demonstrated in the Boardroom and that there is an environment in which challenge is expected and achieved. In April, we reviewed the lessons learnt from the financial

crisis and considered any enhancements that could be made. Governance processes were reviewed and a number of changes were made. These included revisions to the Board Risk Committee Terms of Reference to make explicit its role in reviewing risks following the Group s entry into new businesses or geographies. The changes also set out the Committee s role in reviewing the specific risk adjustments to be applied to performance objectives. The frequency of risk, capital and liquidity reporting to the Board, Board Audit Committee and Board Risk Committee has been increased and additional time has been allocated to strategy discussions.

Barclays has emerged from the crisis in a relatively strong position compared to many of our peers. The underlying profits of the Group were strong in 2009 and good progress was made on key measures of financial strength, such as capital and liquidity. However, we remain conscious of the significant reduction in shareholder value suffered by our shareholders. Whilst we have made changes to some of our Corporate Governance processes and practices, we believe that these were fundamentally sound. The review of Corporate Governance in the banking sector by Sir David Walker (the Walker Review), to which we contributed, made a number of recommendations for improvements in governance in the banking sector. Many of the practices put forward in the Walker Review recommendations are in line with practices we already have in place, but where we can enhance processes and practices, we are doing so.

However, the real key to effective Corporate Governance is to ensure that behaviours around the Board table are appropriate. It is an essential part of my role to ensure that firstly, appropriate and timely information is available to the Board in a readily understandable format, and secondly, that there is an environment in the Boardroom which promotes and supports constructive and effective challenge. This requires the right Board composition and I believe Barclays has been well served by both its executive and non-executive Directors in this respect. Our Directors understand the importance of appropriate Board behaviour, which is set out in our Charter of Expectations at www.barclays.com/corporategovernance. The Charter of Expectations is given to all new Directors and reviewed on an annual basis to ensure it sets out the expectations of each Director in their role on the Board, including expected competencies, behaviours and time commitment.

Board size and composition

During 2009, we made a conscious effort to reduce the size of the Board from its peak of 17 and, although this number will fluctuate as we seek to ensure the Board has the right level of skills and experience, we will aim to keep it between 12 to 15 Directors. Going forward, it is our intention to maintain a majority of independent non-executive Directors, with approximately 50% of those non-executive Directors, including the Group Chairman and the Chairmen of the principal Board Committees, having banking or financial experience. We do believe, however, that to be fully effective, the Board should have a balance of Directors with both banking or financial experience and broader experience.

We have carefully considered, in the light of both the Walker Review and the Review of the Combined Code, whether all Directors should stand for re-election each year. I do believe it is important that the Chairman should stand for re-election annually and, having discussed the issue at both the Board Corporate Governance and Nominations Committee and the Board, we decided that the Deputy Chairman and Committee Chairmen should also stand for annual re-election.

The report that follows sets out how we have complied with the UK Combined Code on Corporate Governance (the Code) and also gives further details of any enhancements made during the year and in particular, in response to the recommendations of the Walker Review.

Marcus Agius

Group Chairman

9th March 2010

Corporate governance

Corporate governance report

continued

Statements of Compliance

UK Combined Code on Corporate Governance

As Barclays is listed on the London Stock Exchange, we comply with the UK Combined Code on Corporate Governance (the Code). For the year ended 31st December 2009, we have complied with the relevant provisions set out in section 1 of the Code and applied the principles of the Code as described in this report.

NYSE Corporate Governance Rules

Barclays has American Depositary Receipts listed on the New York Stock Exchange (NYSE), and is also subject to the NYSE s Corporate Governance rules (NYSE Rules). We are exempt from most of the NYSE Rules, which domestic US companies must follow, because we are a non-US company listed on the NYSE. However, we are required to provide an Annual Written Affirmation to the NYSE of our compliance with the applicable NYSE Rules and must also disclose any significant differences between our corporate governance practices and those followed by domestic US companies listed on the NYSE. As our main listing is on the London Stock Exchange, we follow the UK s Combined Code. Key differences between the Code and NYSE Rules are set out later in this Report.

Role and constitution of Board

Corporate governance framework

Good corporate governance practices are not just a matter for the Board but are at the heart of everything that we do within the Group. The Group operates within a comprehensive governance framework, which is outlined in the diagram below and set out in the report that follows. The Group s risk management framework is described in the Risk Management section on pages 87 to 93.

The Board

The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of the Group s businesses. Each Director must act in a way that he or she considers promotes the long-term success of the Company for the benefit of shareholders. The Board also ensures that management achieves an appropriate balance between promoting long-term growth and delivering short-term objectives.

Board meetings

The Board has eight Board meetings scheduled each year. Strategy is reviewed regularly at these meetings with updates at each meeting from at least one business unit on the execution of their agreed strategy. One Board meeting each year, scheduled over a day and a half, considers and approves the Group s future strategy. A different approach was taken to strategy formulation in 2009 following feedback received as part of the 2008 Board Effectiveness Review. During the summer of

2009, the non-executive Directors took part in interviews with the Head of Strategy and Company Secretary to discuss strategic areas of focus. These areas of focus were debated by the Board in September with discussions of various themes facilitated by non-executive Directors. Management then developed strategy proposals, which were fully debated by the whole Board in November.

In addition to the eight scheduled meetings in 2009, there were 13 additional Board meetings held to consider and approve the iShares and BGI transactions and the restructuring of our credit market exposures. A further six Board meetings were held during the year on other issues, including share price performance. The additional Board meetings, which were often called at short notice, had attendance of 88%. Any Director who was unable to attend a meeting was briefed separately on the discussions at the meeting and their views were sought and considered. There were also 12 meetings of the Board Finance Committee, to which the Board delegated authority to review and approve certain aspects of the iShares, BGI and credit market exposure transactions. The Board Finance Committee, whose purpose is to authorise certain transactions to which the Group is party, subject to the relevant authority being delegated to the Committee by the Board (as set out in the Board Finance Committee s Terms of Reference), comprises the Group Chairman, Group Chief Executive and at least two independent non-executive Directors. Board Finance Committee attendance was 100%.

Scheduled Board and Committee meetings are arranged at least one year in advance and all Directors are expected to attend each meeting. All Directors are provided with the meeting papers and relevant information in advance of each meeting and, if a Director is unable to attend a meeting because of exceptional circumstances, he or she will still receive the supporting papers and will usually discuss any matters they wish to raise with the Chairman of the meeting. This ensures that their views are given due consideration. The attendance at Board meetings held in 2009 is set out on page 155. In 2009, all Directors committed an appropriate amount of time to fulfil their duties and responsibilities on the Board. Any instances of non-attendance at Board meetings are generally related to prior business or personal commitments or illness. The additional meetings in 2009 were often arranged at short notice or rearranged as market conditions changed and it was not always possible for all Directors to attend these meetings particularly because of time zone differences.

Non-executive Director Board briefings

The Group Chairman usually meets with the non-executive Directors ahead of each scheduled Board meeting to brief them on the business of the meeting. These meetings are held without any executive Directors or senior management present. The non-executive Directors use these meetings as an opportunity to advise the Group Chairman if they have any specific questions they would like to raise about the business of the meeting. The Group Chairman, Group Chief Executive and Company Secretary are always available for the Directors to discuss any issues concerning Board meetings or other matters.

Role of the Board

UK company law requires Directors to act in a way they consider, in good faith, would promote the success of the Company for the benefit of shareholders as a whole. In doing so, the Directors must have regard (amongst other matters) to:

- the likely consequences of any decision in the long-term;
- the interests of Barclays employees;

the need to foster Barclays business relationships with suppliers, customers and others;

the impact of Barclays operations on the community and the environment;

the desirability of Barclays maintaining a reputation for high standards of business conduct; and

the need to act fairly as between shareholders of Barclays.

In addition to their statutory duties, the Directors must ensure that the Board focuses effectively on all its accountabilities. The Board determines the strategic objectives and policies of the Group to deliver long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Group: the executive Directors are directly responsible for running the business operations and the non-executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board. The non-executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentation by executive management and a disciplined process of review and challenge by the Board, clear decisions on the policy or strategy are adopted, and the executive management are fully empowered to implement those decisions. The role and responsibilities of the Barclays Board are set out in Corporate Governance in Barclays , which is available on our website at *www.barclays.com/corporategovernance.*

Role of the Group Chairman

The role of the Group Chairman is to lead and manage the Board to ensure it discharges its legal and regulatory responsibilities fully and effectively. The time commitment of the Group Chairman is set out in our Charter of Expectations and is in line with the Walker Review recommendation that a Chairman commits two-thirds of his/her time to the role. The Group Chairman must also ensure the Board is effective in delivering all its objectives, and so sets the Board agenda and allocates sufficient time for the Board to engage in meaningful discussions on strategic issues. He facilitates and encourages challenge from all Directors where decisions are needed on matters of risk and strategy. The Group Chairman also ensures that the Directors are kept well-informed, particularly the non-executive Directors, so that Board discussions are effective and there is good communication between the executive and non-executive Directors. The Group Chairman, Group Chief Executive and the Company Secretary work together to ensure that the Directors receive relevant information for them to discharge their duties and that such information is accurate, timely and clear. The communication of information applies to all scheduled Board meetings, but is particularly important in exceptional circumstances where the Board needs to respond to changing market conditions. We provide all our Directors with secure access to electronic copies of meeting papers and other key documents via a dedicated Directors intranet. The documents available include past and current Board and Committee papers, reports, minutes, press coverage, analyst reports and material from briefing sessions.

Role of the Chief Executive

The roles of the Group Chairman and Group Chief Executive are separate. The role of the Group Chief Executive is to manage the day-to-day running of the Group. The Board has delegated this responsibility to the Group Chief Executive and he then leads the executive Directors and Executive Committee in making and executing operational decisions. The Group Chief Executive is also responsible for recommending strategy to the Board.

Company Secretary

The Company Secretary and his team provide dedicated support to the Board. Their services are available to all Directors, particularly the non-executive Directors who may need additional support to ensure they receive timely and accurate information to fulfil their duties. Directors may also take independent professional advice on request at the Company s expense.

Effective internal control

One of the Board s key responsibilities is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulation. The Board considers the materiality of financial and other risks to the Group s business and reputation, ensures that appropriate controls are in place and considers the relative costs and benefits of implementing specific controls.

The powers of the Board are set out in a formal schedule of matters reserved for the Board s decision. These matters are significant to the Group as a whole because of their strategic, financial or reputational implications.

The Schedule of Matters Reserved to the Board is reviewed and updated regularly to ensure it remains appropriate and a summary of these matters is set out on page 154.

Board Activities in 2009

At each meeting in 2009, the Group Chief Executive and Group Finance Director reported to the Board and one or two of the main businesses or functions also presented an update on the implementation of their agreed strategy. Scheduled Board meetings also received reports from each of the principal Board Committees and reports from the Company Secretary on relevant corporate governance matters, including updates on the Walker Review and the Review of the Combined Code and the potential implications for the Group. The Board also received reports on the new regulatory frameworks in respect of compensation, particularly in respect of the FSA Remuneration Code and the proposals of the Financial Stability Board.

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Go online

The role and responsibilities of the Barclays Board are set out in Corporate Governance in Barclays , which is available on our website at *www.barclays.com/corporategovernance*

Summary of Matters Reserved for the Board

Approval of the Group s strategy, Medium-Term and Short-Term Plans

Approval of Risk Appetite and Liquidity Risk Appetite

Monitoring delivery of the strategy and performance against plan

Changes relating to capital structure or status as a PLC

Approval of annual Capital Plan

Approval of interim and final financial statements, dividends and any significant change in accounting policies or practices

Authorisation for Directors conflicts or possible conflicts of interest

Appointment (or removal) of Company Secretary and Chief Risk Officer

Any share dividend alternative

Remuneration of auditors and recommendations for appointment or removal of auditors

Approval of all circulars, prospectuses and significant press releases

Principal regulatory filings with stock exchanges

Board appointments and removals

Role profiles of key positions on the Board

Terms of reference and membership of Board Committees

Major acquisitions, mergers or disposals

Major capital investments and projects

Approval of the framework for determining the policy and specific remuneration of Executive Directors

Approval of Chairman and non-executive Director remuneration

Major changes in employee share schemes

Approval of allotment of shares

Approval of Board and Board Committees performance evaluation process

Determination of independence of non-executive Directors

Approval of Corporate Governance framework

Approval of division of responsibilities between the Chairman and Group Chief Executive

Rules and procedures for dealing in Barclays securities

The Board allocated its time at scheduled Board meetings during 2009 to the following:

Strategy

- discussion of and approval of Group Strategy, including risk strategy and remuneration strategy;
- reports from the Group Chief Executive on key strategic issues and progress, matters considered by the Executive Committee and competitor activity. The reports also included progress on Group-wide key objectives, a half yearly review of TSR performance and an update on talent management;
- reports from the following businesses on progress against strategy: Western Europe, Barclays Global Investors, Barclays Wealth, Barclays Commercial Bank, Barclays Capital (including an update on the integration of the Lehman Brothers North American business), Barclaycard, UK Retail Bank and Absa;
- reports on the following key issues: Brand and Marketing, Corporate Sustainability, Franchise Health (including customer and employee satisfaction measures); and
- presentations on shareholder sentiment (including institutional perceptions) and reputation.

Finance (including capital and liquidity)

- reports from the Group Finance Director on the financial position of the Group, which included capital management and liquidity updates throughout the year;
- regular reports from the Chairman of the Board Audit Committee on matters discussed at that Committee;
- approval of the full year and half-year results for the Group;
- reports on peer group comparison of results following the release of preliminary and half-year results;
- approval of the dividend policy;

approval of the Group s cost of equity and capital plan for 2010; and

approval of the medium-term plan (including the financial framework) and short-term plan.

Risk

regular reports from the Chief Risk Officer on risk management and impairment and from the Group General Counsel on legal risk issues;

regular reports from the Chairman of the Board Risk Committee on matters discussed at that Committee; and

approval of Risk Appetite and Liquidity Risk Appetite for the Group for 2010.

Note

a Capital management was reported separately for 2008. It is included within Finance (including capital and liquidity) for 2009.

Corporate Finance

- consideration and approval of the proposed iShares sale and subsequent sale of Barclays Global Investors; and
- consideration and approval of the restructuring of our credit market exposures.

Corporate Governance

- reports on governance issues and updates on the changes in company law, including approval of non-executive Director appointments, updates on the Walker Review consultation and the Financial Reporting Council s Review of the Combined Code;
- a report on the effectiveness of the Board following the effectiveness review;
- approval of the non-executive Directors fees following a benchmarking comparison against our peer group; and
- reports from each of the Board Committees.

Compensation

- reports on remuneration strategy;

reports on regulatory frameworks, including FSA Remuneration Code and the proposals from the Financial Stability Board;

regular reports from the Chairman of the Board HR and Remuneration Committee on matters discussed at that Committee; and

consideration of the proposals for the closure of the UK Retirement Fund.

Regulatory issues

a review of the FSA s stress-test results;

regular reports from the Group Chief Executive on contact with regulators worldwide and in particular discussions with the tripartite authorities in the UK;

consideration of the Government s Asset Protection Scheme; and

updates on the global and UK economic and regulatory environment.

Figure 1 on page 154 illustrates how the Board spent its time at scheduled Board meetings in 2009.

Board size, composition and qualification

Board size and composition

There are currently 13 Directors on the Board, comprised of the Group Chairman, three executive Directors and nine non-executive Directors. The size and composition of the Board is regularly reviewed by the Board and, in particular, the Board Corporate Governance and Nominations Committee, to ensure there is an appropriate and diverse mix of skills and experience. The Board aims to appoint non-executive Directors who have the skills and experience needed for a comprehensive understanding of the Group s activities and the risk associated with them. This is particularly important for Barclays as a financial services business and it is our intention that 50% of our non-executive Directors, including the Group Chairman and the Chairmen of the principal Board Committees, should have banking or financial experience. However, a broader range of skills and experience is

Board and Committee Attendance

Number of meetings held	Independent	Scheduled Board 8	Additional Board[a] 19	Board Audit Committee 11	Board HR & Remuneration Committee 14	Board Corporate Governance & Nominations Committee 4	Board Risk Committee 5	AGM 1
Group Chairman								
Marcus Agius	OA	8	19		14	4		1
Executive Directors								
John Varley (Group Chief Executive)	ED	8	19					1
Bob Diamond	ED	8	17					1
Chris Lucas	ED	8	19					1
Frits Seegers (to 3rd November)	ED	6	19					1
Non-executive Directors								
David Booth	I	8	16				5	1

Sir Richard Broadbent (Deputy Chairman & Senior Independent Director)	I	8	18		14	4	5	1
Leigh Clifford	I	8	7		11			1
Fulvio Conti	I	8	15	10				1
Professor Dame Sandra Dawson (to 23rd April)	I	3	11	5				1
Simon Fraser (from 10th March)[b]	I	7	15	5	7			
Reuben Jeffery III (from 16th July)	I	4	2					
Sir Andrew Likierman	I	8	17	11			5	1
Sir Michael Rake	I	8	17	11		2	3	1
Sir Nigel Rudd (Deputy Chairman to 23rd April)	I	3	11			1		1
Stephen Russell (to 31st October)	I	6	12	7		2	3	1
Sir John Sunderland	I	8	17		14	4		1
Patience Wheatcroft (to 16th June)	I	3	14					1

Key

OA Independent on appointment. **ED** Executive Director. **I** Independent non-executive Director.

Notes

a In the case of Leigh Clifford, who is based in Australia, the time difference meant that he was not always able to participate in additional Board meetings called at short notice, but he was fully briefed on the discussions by the Group Chairman or the Company Secretary.

b Simon Fraser was appointed as a member of the Board Audit Committee and Board HR and Remuneration Committee with effect from 1st May 2009.

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essential for the Board to be fully effective. Figure 2 demonstrates the diverse range of skills and experience on the Board.

We have a strong independent element on the Board and more than half the Directors are independent non-executive Directors, which is in line with the recommendations of the Code. The balance of the Board is illustrated by Figure 3.

Independence of non-executive Directors

The Code sets out the circumstances that may be relevant to the Board in determining whether each non-executive Director is independent. In addition to these circumstances, Barclays Charter of Expectations sets out specific criteria that the Board considers are essential behaviours in order to assess the independence of non-executive Directors. These criteria are as follows:

provides objective challenge to management;

is prepared to challenge others assumptions, beliefs or viewpoints as necessary for the good of the organisation;

questions intelligently, debates constructively, challenges rigorously and decides dispassionately;

is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the organisation; and

has a good understanding of the organisation s business and affairs to enable them to properly evaluate the information and responses provided by management.
The Board considers non-executive Director independence on an annual basis, as part of each Director s performance evaluation. The Board Corporate Governance and Nominations Committee and the Board reviewed the independence of each non-executive Director in early 2010 and concluded that each of them continues to demonstrate these essential behaviours.

Board qualification

The Board benefits from the diverse range of skills, knowledge and experience that the non-executive and executive Directors have acquired as Directors of other companies or as business leaders in government or in academia. The Board also values the experience that our international Directors bring and aims to have diverse geographical experience on the Board, as illustrated by Figure 4. The effectiveness of the Board depends on ensuring the right balance of Directors with banking or financial experience and broader commercial experience.

External appointments

We recognise that there are significant advantages to individuals and to the Board as a whole of Barclays executive Directors serving on the Boards of other companies. In line with the Code recommendation, executive Directors may join the Board of one other listed company and all such appointments must be approved by the Board. Executive Directors must ensure that their external appointments do not involve excessive commitment or conflict of interest and their time commitment to Barclays must take precedence over any external appointment (other than those they undertake in connection with their duties at Barclays). Executive

Note

a Individual directors may fall into one or more categories.

Directors may retain fees paid in connection with an external appointment and details of any fees received by executive Directors may be found in the Remuneration Report on page 170.

Conflicts of Interest

Under UK company law, all Directors must seek authorisation before taking up any position with another company that conflicts, or may possibly conflict, with the Barclays interests. Barclays Articles of Association contain provisions to allow the Directors to authorise situations of potential conflicts of interest so that a Director is not in breach of his duty under company law. All Directors must report any changes in their circumstances to the Board and the Board reserves the right to terminate the appointment of a non-executive Director if there are any material changes in their circumstances that may conflict with their commitments as a Barclays Director or that may impact on their independence. All existing external appointments for each Director have been authorised by the Board and each authorisation is set out in a Conflicts Register. The Board Corporate Governance and Nominations Committee is responsible for conducting an annual review of the Conflicts Register and confirming to the Board that, where relevant, conflicts are dealt with appropriately, and that the process for dealing with them is operating effectively. The Board Corporate Governance and Nominations Committee reviewed the Conflicts Register in early 2010 and concluded that conflicts had been appropriately authorised and that the process for authorisation is operating effectively.

Role of the Board and Board Corporate Governance and Nominations Committee

In addition to reviewing the size and composition of the Board, the Board Corporate Governance and Nominations Committee is also responsible for reviewing the balance on the Board and its principal Committees and recommending the appointment of any new Directors to the Board. It is essential that the Board is refreshed regularly to maintain the appropriate skills and experience and the Committee also considers length of tenure of each non-executive Director, which is set out in Figure 5. The biographies of the current Directors, which set out the details of their skills and experience, are on pages 10 and 11.

The Charter of Expectations, which forms part of Corporate Governance in Barclays sets out detailed role profiles for each of the Board positions, including the Group Chairman, Deputy Chairman, Senior Independent Director and both non-executive and executive Directors. Before appointing a new Director, the Board Corporate Governance and Nominations Committee will consider the responsibilities general to all Directors and, in addition, the specific responsibilities required for each role. Non-executive Directors have a responsibility to constructively challenge

and develop proposals on strategy and assess the performance of management in implementing the Group s strategy. As Deputy Chairman and Senior Independent Director, Sir Richard Broadbent has further responsibilities, which are set out in our Charter of Expectations, including conducting the performance review of the Group Chairman and meeting institutional investors.

Sir Richard Broadbent met privately during the year with the other non-executive Directors and the Group Chief Executive to discuss feedback he received on the Group Chairman s performance. These results were shared with the Group Chairman. During 2008 and in the first few months of 2009 leading up to the Annual General Meeting (AGM), Sir Richard conducted a series of meetings and consultations with institutional shareholders to discuss the capital raisings. Sir Richard also met with institutional shareholders to discuss Barclays remuneration strategy and the external reviews into this area.

Time Commitment

The Charter of Expectations sets out the time commitment expected from each Director, with specific requirements for the Chairman, Deputy Chairman, Senior Independent Director and non-executive Directors. Additional time commitment expectations are set out for the Board Committee Chairmen and members. The expected time commitment, which is agreed with each individual, will not be less than a minimum of 20 days per annum. Certain non-executive Directors, including the Deputy Chairman, Committee Chairmen and Committee members, are expected to commit additional time, with the average time commitment for the non-executive Directors as a whole being in the range of 30-36 days per year. Sir Richard Broadbent, as Deputy Chairman and Senior Independent Director, is expected to commit to at least one day per week in carrying out his Barclays duties, but in practice spends significantly more time on Barclays business. Committee Chairmen are expected to commit between 3 and 10 days per year in addition to between 6 and 8 days per year for Committee members. The time commitment of each non-executive Director is decided on an individual basis, with six of the non-executive Directors committing over 30 days per year. Taking into account both Board and Board Committee requirements, the balance commit at least 28 days per year.

Re-election of Directors

In line with the recommendations of the Code, all Directors usually seek re-election every three years and any Directors that were appointed during the year seek re-election at the next AGM. For the 2010 AGM the Group Chairman, Marcus Agius, will offer himself for re-election as recommended by the Walker Review. In addition, the Deputy Chairman, Sir Richard Broadbent, the Chairmen of each principal Board Committee, David Booth,

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Go online

The Charter of Expectations, including role profiles for key Board positions, is available from *www.aboutbarclays.com*

and Sir Michael Rake will also offer themselves for re-election. The Directors retiring by rotation, as required by our Articles, and offering themselves for re-election are Sir Andrew Likierman and Chris Lucas. Reuben Jeffery, who was appointed on 16th July 2009, is also offering himself for re-election.

Induction, business awareness and development

Each new Director receives an induction presentation, an information pack and a personalised induction programme. The induction presentation explains their responsibilities as a Director of a global, listed financial services company and sets out an overview of the Group and its businesses. The information pack gives details of the disclosures that Directors are required to make to comply with various laws and regulations. The personal induction programme, which is discussed with each new Director, is tailored to their needs so that they can gain a better understanding of the Group and its businesses. The induction programme typically involves two stages of meetings. The first involves sessions with each of the executive Directors, members of the Executive Committee and the heads of the main Group functions. These sessions include opportunities for the new Director to visit operational sites and meet with senior management and employees. The second stage includes additional sessions with the executive Directors and senior managers from each of the Group s main business units to provide the new Director with in-depth information to develop a comprehensive understanding of those businesses. The sessions focus on the challenges, opportunities and risks that are faced by each business unit. Simon Fraser and Reuben Jeffery undertook their Board induction programmes during 2009. Additional induction programmes are put together for non-executive Directors who are joining any of the principal Board Committees and may include meetings with external advisers and the Group s statutory auditor, where appropriate or relevant.

To ensure the Directors continue to further their understanding of the issues facing the Group we provide a comprehensive programme of business awareness training sessions and briefings on external technical matters. In early 2009, non-executive Directors were sent a questionnaire to seek their views on topics of interest, including business specific areas and technical issues. As a result, three in-depth briefing sessions on Basel II, Capital Management and Derivatives were arranged during 2009. Attendees were sent pre-reading material for these sessions and interactive discussions were encouraged. Positive feedback was received from the non-executive Directors who attended these sessions and further sessions are planned for 2010.

During 2009, in response to the 2008 Board Effectiveness Review, a questionnaire was sent to non-executive Directors requesting feedback about the level of interaction with senior management below Board level. Following that feedback, and in addition to the regular presentations made to each Board meeting by senior managers, we aim to hold regular lunches for the non-executive Directors and senior management after Board meetings to encourage greater informal interaction between non-executive Directors and senior management.

External matters

Directors are regularly briefed on market opinion and receive copies of analyst research and press commentary. Further briefing material on market conditions was sent to Directors during 2009 and Directors continue to receive relevant publications to keep them up to date with changing market opinion, including a weekly commentary on the Barclays share price and analyst comment. Directors are invited to attend results presentations to meet with analysts and investors to enhance their awareness of market sentiment.

Functioning of the Board and evaluation of performance

Functioning of the Board

For the Board to function effectively, the non-executive Directors must contribute to Board discussions and challenge and test the proposals on strategy that are put forward by the executive Directors. The Board promotes an environment whereby challenge from the non-executive Directors is welcomed and encouraged, combined with full support for and empowerment of the executive Directors in implementing decisions.

The Board Committees

Certain responsibilities of the Board are delegated to Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. The four principal Board Committees (the Board Audit Committee, the Board Corporate Governance and Nominations Committee, the Board HR and Remuneration Committee and the Board Risk Committee) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each Board Committee reports to the Board following each of its meetings and the minutes of each Board Committee meeting are circulated to the Board. This report sets out how the Board and its Committees work within the governance framework and corporate governance guidelines.

Current membership of the Board Committees

	Board Audit Committee	Board Corporate Governance & Nominations Committee	Board HR & Remuneration Committee	Board Risk Committee
Marcus Agius		C	M	
David Booth		M		C
Sir Richard Broadbent		M	C	M
Leigh Clifford			M	
Fulvio Conti	M			
Simon Fraser	M		M	
Reuben Jeffery III				M
Sir Andrew Likierman	M			M
Sir Michael Rake	C	M		M
Sir John Sunderland		M	M	

Key

C Chairman

M Member

All members of the principal Board Committees are independent non-executive Directors, although the Group Chairman is a member of the Board HR and Remuneration Committee, as permitted by the Code for a Chairman who was independent on appointment. The Group Chairman is also Chairman of the Board Corporate Governance and Nominations Committee.

Each Committee s terms of reference set out the specific matters for which delegated authority has been given by the Board. These terms of reference are reviewed annually and are available on our website at: *www.barclays.com/corporategovernance*. A summary of the terms of reference is set out in the table below.

Board Audit Committee
Sir Michael Rake (Chairman from 31st March 2009) Fulvio Conti Simon Fraser (from 1st May 2009) Sir Andrew Likierman Stephen Russell (to 31st October 2009) (Chairman to 31st March 2009) **Secretary** Lawrence Dickinson

In addition to the members of the Committee, there are a number of regular attendees at each meeting. The Group Chief Executive, Group Finance Director, Barclays Internal Audit Director, Chief Risk Officer, Group General Counsel and the lead external audit partner normally attend all scheduled Board Audit Committee meetings. The Board Audit Committee members usually meet before each meeting, without any executive Directors or senior management present, to raise any questions and discuss issues with the Chairman of the meeting. They also meet with the external auditors and the Barclays Internal Audit Director, without management present, at the end of most Committee meetings.

Sir Andrew Likierman continues to fulfil his role as the financial expert as defined by the US Sarbanes-Oxley Act of 2002 and, as a result of his accountancy background and his career with HM Treasury, has recent and relevant financial experience as recommended by the Code. Sir Michael Rake succeeded Stephen Russell as Chairman of the Committee in March 2009.

Terms of reference

Board Audit Committee	Board Corporate Governance and Nominations Committee	Board HR and Remuneration Committee	Board Risk Committee
Reviews accounting policies and the contents of financial reports. Monitors disclosure controls and procedures and the internal control environment. Considers the adequacy and scope of the external and internal audit. Oversees the relationship with our external auditors.	Reviews composition of Board. Recommends appointment of new Directors. Considers succession plans for Group Chairman and Group Chief Executive positions. Monitors corporate governance issues. Oversees the annual Board performance review.	Sets the policy for executive Directors and senior executives remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans. Governs employee share schemes. Looks at strategic HR issues.	Recommends total level of risk we are prepared to take (risk appetite) to the Board. Monitors risk appetite. Reviews limits for individual types of risk. Monitors the risk profile. Obtains assurance that principal risks have been properly identified and are being appropriately managed.

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The Board Audit Committee terms of reference are available from the corporate governance section of our website at: ***www.barclays.com/corporategovernance***

Board Audit Committee Chairman s Statement

I took over from Stephen Russell as Chairman of the Board Audit Committee at the end of March. I would like to thank Stephen for his hard work and diligence as Chairman of the Committee and for the support provided to me during the handover period.

Since becoming Chairman, I have focused the work of the Committee on the following key areas:

- Capital;
- Liquidity;
- Impairment;
- Credit Market Exposures and Mark to Market valuations; and
- Key Control Issues.

The Committee receives a quarterly report on Control Issues of Group Level Significance. This report identifies control weaknesses which could have a significant financial or non-financial impact. The Committee satisfies itself that the remediation programmes are appropriate and, in particular, sufficiently timely. It also monitors the ongoing remediation programme through to satisfactory resolution. The Committee also reviews the key risks and controls in each of the Group s major business units, focusing in particular on those areas where the Group s business is expanding or is deemed to be higher risk. It also undertakes more in-depth reviews of specific areas which it believes warrant close attention, including in 2009:

- Know Your Customer and Anti-Money Laundering Controls;
- Sanctions Compliance;
- the use of direct sales agents, particularly in the Emerging Markets business; and
- the Lehman Brothers North American business integration programme.

In terms of capital and liquidity, the Committee receives quarterly reports setting out current and forecast capital ratios, the size of the buffer above minimum capital requirements and the potential impact on capital ratios of stress scenarios. The liquidity section of the report reviews the Group s liquidity risk profile, including movements in retail and commercial deposits, the wholesale funding maturity profile and the potential impact on the Group s liquidity position of stress scenarios. The Committee s regular review of these reports is one of the key processes enabling it to recommend to the Board, on a bi-annual basis, the going concern statement in the published annual and interim financial statements.

The Committee receives regular reports on current and forecast impairment. The report reviews trends in both retail and wholesale credit risk, in each case by business unit. The report also reviews the level of potential credit risk loans and the level of impairment held against them. A specific report on impairment methodology was commissioned by the Committee to ensure that it was satisfied with the methodologies in use across the Group. The impairment charge included in the interim and preliminary results announcements is specifically reviewed to ensure that the Committee is satisfied that the charge is appropriate. In arriving at this decision, a variety of factors are considered including:

actual performance versus forecast;

underlying portfolio trends;

the business environment;

compliance with Group impairment policy;

any adjustments to impairment model outputs;

Barclays position relative to peer banks; and

input from the Group s external auditor.

The Committee continues to review closely the fair value of the Barclays Capital credit market exposures (including asset backed securities, commercial property exposure and leveraged credit positions) and the form

In addition to the five areas of focus outlined above, the Committee has been anxious to ensure that the downward pressure on costs in the current environment does not weaken the control environment. We have particularly monitored staffing levels in Internal Audit to ensure that it has the necessary resources to fulfil the agreed Audit Plan.

The Committee reviews the performance of the internal and external auditors annually. During 2009, a comprehensive external assessment of Internal Audit was undertaken. The review compared their practices to relevant standards, including those published by the Institute of Internal Auditors as well as regulatory standards and expectations in various jurisdictions and included peer group benchmarking. The review concluded that the Internal Audit function complies with the Institute of Internal Auditors Standards, is fit for purpose and provides independent assurance on which the Board may rely, with many examples of leading practice. Where suggestions for improvement were made, the Committee will monitor progress.

Feedback on the performance of the external auditors was again sought from key stakeholders in the Group via questionnaires with the results being presented to, and discussed by, the Committee. The Committee is fully satisfied with the performance of the Group s external auditor and has recommended to the Board and to shareholders that the Group s external auditor should be re-appointed as the Group s auditors at the AGM on 30th April 2010. We are satisfied that the Group s external auditor provides effective, independent challenge to management, which has been crucial in the current difficult environment, and has provided valued support to the Committee in the advice given and the clarity of their briefings and reports.

As Chairman of the Committee, I have liaised as appropriate with the Chairman of the Board HR and Remuneration Committee, particularly to draw attention to any specific aspects of the Group s results which I feel he ought to be aware of when determining appropriate levels of compensation. I have also liaised with the Chairman of the Board Risk Committee to ensure our agendas are co-ordinated where necessary and to avoid any overlap/underlap in coverage. I am also a member of the Board Risk Committee, which helps to ensure close co-ordination between the two committees.

I also have a programme of visiting key businesses overseas, including attending meetings of local governance and control committees and the audit committees of key subsidiaries. During the year, I visited New York, Dubai and Johannesburg.

The Committee can confirm that it received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.

and content of disclosures of these exposures. The review of the credit market exposure valuations includes a review of marks by key asset categories, movements in exposures (including sales/paydowns) and a review of underlying collateral by vintage and rating. The Committee receives at both the half-year and year-end and before each Interim Management Statement, a specific presentation from Barclays Capital s Chief Operating Officer and discusses the valuations with the Group Finance Director, the Chief Risk Officer and, importantly, the Group s external auditors. Confirmation is sought from independent Group control functions such as Risk and Finance, and the external auditors, that the individual marks are appropriate. The Committee continues to be reassured that there were no significant variations between the prices at which assets were sold and the underlying marks.

A specific focus was the sale of US$12.3bn of credit market assets to Protium Finance LP in September. I discussed the accounting treatment relating to the asset sale with both the Group Finance Director and the Group s external auditor to ensure I was satisfied that it was appropriate. The Committee also reviewed the reclassification of certain financial assets originally classified as held for trading, and now considered as loans and receivables, again to ensure the accounting treatment was appropriate.

Sir Michael Rake

Chairman of the Board Audit Committee

9th March 2010

Board Audit Committee Activities in 2009

The Committee met 11 times in 2009 and Figure 6 illustrates how the Committee allocated its time at those meetings. The items covered under each heading in Figure 6 are as follows:

Control Issues

- reviewed internal control and risk management systems;
- considered the effectiveness of the Group s internal controls over financial reporting;
- reviewed impairment methodologies; and
- considered the Fraud Risk Control Framework.

Financial Results

- reviewed the full year results, including market understanding and perception of those results;
- reviewed the Annual Report and Accounts, half-year Results and Interim Management Statements; and
- reviewed the Group s accounting policies and the valuation of derivatives and credit market exposures.

Internal Audit Matters

- received reports from the internal auditors;
- monitored the performance of the Internal Audit function and received an external assessment review of the Internal Audit function; and
- reviewed the Global Internal Audit Plan.

External Audit Matters

- reviewed the effectiveness and independence of the Group statutory auditor;
- approved the re-appointment, remuneration and engagement letter of the Group statutory auditor;
- approved the global audit plan for 2009;
- considered the provision of non-audit services by the Group statutory auditor more details can be found in the box on page 162; and
- received reports from the external auditors.

Business Control Environment

- received reports on Group Control Environment Key Trend Data and on the control environments in each of the following businesses or functions: UK Retail Banking, Barclays Commercial Bank, Barclays Wealth (Americas), Barclays Capital (including an update on the integration of the Lehman Brothers North American business), Barclaycard, Emerging Markets, Barclays Wealth, Western Europe, GRCB Technology and Absa.

Governance and Compliance

- considered the information it would require during the coming year to enable it to discharge its responsibilities given the significant changes in financial markets and economic conditions and the impact on the areas of focus for the Committee;
- received reports on matters discussed at the Board Risk Committee, which included information on mark to market valuations, impairment, capital and liquidity;
- received regular reports on Raising Concerns, including whistleblowing;
- received updates on Sarbanes-Oxley Section 404 compliance;
- received updates on Know Your Customer, Anti-Money Laundering and Sanctions Compliance audits;
- reviewed the effectiveness of subsidiary audit committees;

reviewed the recommendations from the Walker Review; and

reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfil its responsibilities.

Other

received updates on business continuity management; and

reviewed the regulatory issues.

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The Board Corporate Governance and Nominations Committee terms of reference are available from the corporate governance section of our website at: ***www.barclays.com/corporategovernance***

Non-Audit Services Policy

The Committee takes seriously its responsibility to put in place safeguards to auditor objectivity and independence. It has therefore established a policy on the provision of services by the Group s statutory Auditor. The Policy describes the circumstances in which the Auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the Policy and considers and approves requests to use the Auditor for non-audit work. Allowable services are pre-approved up to £100,000 or £25,000 in the case of certain taxation services. Any assignment where the expected fee is above the relevant threshold requires specific approval from the Committee or a member of the Committee. The Company Secretary and his team deal with day to day administration of the Policy, facilitating requests for approval by the Committee. The Committee receives a report at each meeting on the non-audit services provided by the Auditor and the Policy is reviewed by the Committee annually. Details of the services that are prohibited and allowed are set out below.

Services that are prohibited include:

- bookkeeping;
- design and implementation of financial information systems;
- appraisal or valuation services;
- actuarial services;

- internal audit outsourcing;
- management and Human Resource functions;
- broker or dealer, investment advisor or investment banking services; and
- legal, expert and tax services involving advocacy.

Allowable services that the Committee will consider for approval include:

- statutory and regulatory audit services and regulatory non-audit services;
- other attest and assurance services;
- accountancy advice and training;
- risk management and controls advice;
- transaction support;
- taxation services;
- business support and recoveries; and
- translation services.

Board Corporate Governance and Nominations Committee

Marcus Agius (Chairman)

David Booth (from 1st January 2010)

Sir Richard Broadbent

Sir Michael Rake

Stephen Russell (to 31st October 2009)

Sir John Sunderland

Secretary

Lawrence Dickinson

The meetings are also attended by the Group Chief Executive.

Board Corporate Governance and Nominations Committee Activities in 2009

The Committee met four times in 2009 and Figure 7 illustrates how the Committee allocated its time at those meetings. During 2009, the Committee:

- regularly reviewed Board and Board Committee composition to ensure the right mix of skills and experience are present;
- monitored the progress of the action plan arising from the 2008 Board Effectiveness Review and oversaw the conduct of the 2009 Board Effectiveness Review including reviewing the process for the Board, Committee and individual Review Director evaluations for 2009;
- reviewed the corporate governance disclosures for the 2008 Annual Report and considered the proposed disclosures for 2009;
- reviewed issues raised at corporate governance meetings held with institutional investors and investor bodies in the lead up to the AGM;
- recommended the appointment of the new non-executive Directors to the Board and changes to Committee membership;
- reviewed succession plans for the Executive Committee and the position of Group Chief Executive; and
- reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfil its responsibilities.

Note

a Included in Board and Committee Composition for 2008.

During 2009, the Committee reviewed the composition of the Board and its principal Committees at each of its meetings. Following those deliberations, the Committee recommended to the Board that Simon Fraser and Reuben Jeffery, who were both identified with the assistance of external search consultants, be appointed as non-executive Directors in March and July 2009 respectively. The Committee also recommended to the Board the following changes to Committee membership:

Sir Michael Rake succeeded Stephen Russell as Chairman of the Board Audit Committee on 31st March 2009 and was appointed as a member of the Board Risk Committee and Board Corporate Governance and Nominations Committee with effect from 1st May 2009;

Simon Fraser was appointed as a member of the Board Audit Committee and Board HR and Remuneration Committee with effect from 1st May 2009;

Patience Wheatcroft was appointed as a member of the Board Risk Committee with effect from 1st May 2009;

David Booth succeeded Sir Richard Broadbent as Chairman of the Board Risk Committee and was appointed as a member of the Board Corporate Governance and Nominations Committee with effect from 1st January 2010; and

Reuben Jeffery was appointed as a member of the Board Risk Committee with effect from 1st January 2010.

The Committee oversees the Board Effectiveness Review and approves the Action Plan for the year ahead. Further details of the review and our evaluation statement are set out on page 165.

Board Risk Committee

Information on the role and activities of the Board Risk Committee and the Committee Chairman s Statement can be found on pages 166 to 168 of this report under Governance of Risk .

Board HR and Remuneration Committee

Sir Richard Broadbent (Chairman)

Marcus Agius

Leigh Clifford

Simon Fraser (from 1st May 2009)

Sir John Sunderland

Secretary

Secretary: Patrick Gonsalves

Additional information on the role and activities of the Committee can be found in the Remuneration Report on pages 170 to 186. The Committee s terms of reference have been updated to reflect the changes to its role and the recent developments in Corporate Governance and regulation.

Board HR and Remuneration Committee Activities in 2009

The Committee met 14 times in 2009 and Figure 8 illustrates how the Committee allocated its time at those meetings. During 2009 the Committee:

continued its review of the Group s remuneration policies and practices to ensure that they remained appropriate and effective;

reviewed Executive and Executive Committee compensation;

reviewed various Pensions and Health and Safety matters;

monitored the implementation of the talent agenda;

considered incentive funding for each main business area for 2010;

considered the alignment of risk and compensation;

reviewed current and future, Group and business level long-term incentive arrangements;

obtained market data on remuneration levels in specified markets; and

reviewed regulatory developements in respect of compensation.

The Committee received valuable support and advice from its independent advisers, Towers Perrin MGMC (now Towers Watson), who attended four meetings in 2009.

Corporate governance

Corporate governance report

continued

Go online

The Board HR and Remuneration Committee terms of reference are available from the corporate governance section of our website at: *www.barclays.com/corporategovernance*

Management Committees

Executive Committee
John Varley, Group Chief Executive (Chairman)
Bob Diamond, Group President and Chief Executive, Corporate and Investment Banking and Wealth Management
Chris Lucas, Group Finance Director
Jerry del Missier, co-Chief Executive, Corporate and Investment Banking
Mark Harding, Group General Counsel
Antony Jenkins, Chief Executive, Global Retail Banking
Tom Kalaris, Chief Executive, Barclays Wealth
Robert Le Blanc, Chief Risk Officer
Maria Ramos, Chief Executive, Absa
Rich Ricci, co-Chief Executive, Corporate and Investment Banking
Cathy Turner, Group Human Resources Director

The Board delegates the responsibility for the day to day management of the Company to the Group Chief Executive and he is responsible for ensuring that the business is operating effectively. The Group Chief Executive chairs the Executive Committee, which supports him in this role. The Executive Committee is supported by a number of management committees, including the Disclosure Committee, the Group Governance and Control Committee, the Group Operating Committee, the Group Risk Oversight Committee and the Group Brand and Reputation Committee. The Executive Committee meets every fortnight to discuss strategy development and policies to recommend to the Board.

Disclosure Committee

Chris Lucas, Group Finance Director, is Chairman of the Disclosure Committee and the members of the Committee are the Company Secretary, Group General Counsel, Director Investor Relations, Chief Risk Officer, Barclays Corporate Affairs Director, Group Financial Controller and Barclays Treasurer. The Committee:

- considers and reviews the preliminary and half-year results, Annual Report/Annual Report on Form 20-F and the Annual Review;
- considers Interim Management Statements released to the Stock Exchange; and
- considers the content, accuracy and tone of any other announcement that is proposed to be made in accordance with the FSA s Disclosure and Transparency Rules.

The Committee reports to the Executive Committee and also reports to the Board Audit Committee, documenting its conclusions about the effectiveness of the design and operation of the disclosure controls and procedures. This, together with a joint report on internal controls from Barclays Internal Audit Director and the Chairman of the Group Governance and Control Committee, provides assurance to the Board Audit Committee as required by the Turnbull Review of Internal Controls and as recommended by the Code.

Evaluation of Board Performance

The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and the Walker Review further recommended that the process is externally facilitated at least every second or third year. We have undertaken externally facilitated performance evaluations annually since 2004 and an action plan has been agreed each year to progress any identified improvements. The evaluation in 2008 was independently facilitated by Egon Zehnder International and the following actions were agreed for 2009:

- continued focus on the Board s calendar of business to ensure that noncritical items are removed or kept to a minimum, thereby ensuring that sufficient time can be allocated to items fundamental to the success of the Group;
- refinements to the Board s calendar of business, including additional time to be spent on items such as compensation strategy and succession planning;
- review of the overall size of the Board;
- refinements to the process for evaluating the performance of individual Directors; and
- additional reporting on capital and liquidity.

Further details of these actions are set out under Board Activities in 2009 on page 153, and Board Corporate Governance and Nominations Committee Activities in 2009 on page 162. The Action Plan for 2009 was completed. The evaluation statement for 2009 is set out on page 165.

Evaluation Statement

In light of changes in Board composition and the significant events of 2009, we reviewed our Board evaluation process before starting the review for 2009. This included considering whether or not to use an external facilitator and reviewing and interviewing a number of alternative external facilitators.

The Board Corporate Governance and Nominations Committee decided to use an external facilitator again in 2009. It felt that in order to get the maximum benefit from an evaluation exercise, interviews with Directors must be conducted as these tend to be far more informative than questionnaires alone. The Committee also felt that it was appropriate to conduct such an external review given the question-marks that have been raised over corporate governance in the sector and following publication of the Walker Review.

The 2009 evaluation was again independently facilitated by Egon Zehnder International. The Committee felt that their proposal for a refreshed approach to evaluation, including an increased emphasis on Board relationships and a broader remit with input being sought from key executives below Board level, was the most appropriate process. The Board confirms that it does not believe there is a conflict of interest in the business relationship with Egon Zehnder International as executive search consultants and Board evaluation facilitators, particularly as the Group has relationships with other search firms.

The evaluation process is rigorous and took the form of questionnaires, which were shortened this year to focus on the elements that need to be monitored. These questionnaires were completed by Director and other key executives, who then had individual interviews with Egon Zehnder. The individual

Structure, people and succession planning;

Decision-making processes, including the culture for effective challenge;

Information flows and presentations;

Board structure and composition, including non-executive experience and knowledge;

Board roles and responsibilities;

Board and management relationships;

Board Meetings; and

meetings with Egon Zehnder focused on overall Board composition, a review of key decisions taken by the Board, the quality of information flows, the quality of debate, the effectiveness of the Board Committees and Board dynamics, particularly with a view to assessing whether the interaction of the Board creates a whole that is greater than the sum of its parts. The process underpinning key decisions taken by the Board during the year was also reviewed. In addition, the evaluation exercise seeks Directors views on the appropriate size and composition of the Board, including identifying any gaps in skills and experience around the Board table. The evaluation covered the following areas:

Group performance;

Strategy and performance objectives, including non-executive Director involvement;

Reporting to shareholders and stakeholders;

Board Committees.

The results of the evaluation were presented to the Board in February 2010. The results focused on key themes rather than on direct feedback from the questionnaires.

The themes that will form the basis of the action plan for 2010 include:

Board size and diversity;

holding additional Board meetings overseas, particularly given the increased size of our operations in the US;

increasing the visibility of senior executives below Board and Group Executive Committee level; and

improving the format of strategy presentations to the Board.

I held private meetings with the non-executive Directors in early 2010 so that individual and general results could be discussed. Bespoke development plans are then agreed with each non-executive Director in relation to their own performance.

As Chairman, I had regular meetings with shareholders and kept the Board fully informed of their views. Details of communications with shareholders are set out on page 168 in the section on Relations with Shareholders.

Marcus Agius

Group Chairman

9th March 2010

Corporate governance

Corporate governance report

continued

Go online

The Board Risk Committee terms of reference are available from the corporate governance section of our website at: *www.barclays.com/corporategovernance*

Governance of Risk

Board Risk Committee

David Booth (Chairman from 1st January 2010)

Sir Richard Broadbent (Chairman to 31st December 2009)

Reuben Jeffery III (from 1st January 2010)

Sir Andrew Likierman

Sir Michael Rake

Stephen Russell (to 31st October 2009)

Patience Wheatcroft (1st May-16th June 2009)

Secretary

Secretary: Lawrence Dickinson

In addition to the Members of the Committee, all meetings are usually attended by the Group Finance Director and Chief Risk Officer. Barclays Internal Audit Director, Group General Counsel and Barclays external auditor, as well as other senior executives, also attend meetings of the Board Risk Committee, where appropriate.

Board Risk Committee Chairman s Statement

Context

Barclays has long recognised the importance of ensuring that the Board and its Committees devote sufficient attention to risk, particularly as it is only by taking appropriate levels of risk that Banks can make a profit. A Board level Risk Committee has been in existence since 1999 and a key role of the Committee is to analyse, understand and monitor the key risks taken by the business to generate profit and create shareholder value. The Committee focuses on risks taken deliberately and overtly, such as credit, market, capital and liquidity risk, rather than the risks of simply doing business, such as operational risk. The Committee, in analysing and monitoring risk, is acting on behalf of the Board and it was an essential part of my role as Chairman to ensure that the Committee alerts the Board to issues of concern.

The Committee itself is comprised solely of independent non-executive directors. However, the Group Finance Director and Chief Risk Officer attend each meeting as a matter of course and the Chief Risk Officer has a dotted reporting line to me as Chairman of the Committee. I have regular meetings with Robert Le Blanc, the Chief Risk Officer, who also has the right (and indeed responsibility) to elevate issues to me where he considers it necessary. I am also consulted by the Group Finance Director in respect of the performance appraisal and compensation of the Chief Risk Officer. His compensation is approved by the Board HR and Remuneration Committee and appointment to or departures from the role are a matter reserved to the Board.

The Committee is conscious, when undertaking its duties, that banks are in the business of taking risk. The aim of the risk function within Barclays and the Board Risk Committee itself is therefore not to minimise risk but to optimise it. This requires us to ensure that risks being taken are:

properly identified and understood, both in their own right and relative to their interactions with other risks we are taking;

appropriate, relative to the scale and type of our business;

affordable, particularly in relation to the capital base of the company;

properly controlled and managed; and

earning an appropriate return, i.e. , one commensurate with the risk taken.

How the Committee goes about its business.

It has been an essential feature of the operation of the Committee that the information flowing to the Committee is congruent with the information flow to Executive Committee. In the case of the Group Risk Profile Report (see below), the report is identical.

The Committee plans its forward programme and undertakes a number of key tasks throughout the course of the year in order to ensure it is satisfied with the way risk is being managed. A key role is to review in detail at the end of every year the proposed Risk Appetite for the forthcoming year, before recommending it to the Board.

The Committee monitors risk performance throughout the year to assess whether such performance is in line with expectations when the budget was set, adjusted for any differences in the performance of the economy. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the Committee is comfortable with them.

The Committee also reviews sectoral limits in both the wholesale and retail sectors and in market risk. The purpose of these limits, known internally as Mandate and Scale limits, is to ensure that concentrations in the risk profile do not result in unacceptable levels of losses.

The Committee, in conjunction with the risk function, also seeks to identify potential future areas of risk in order to undertake detailed analysis and review. A good example of this would be the Committee s review of the US mortgage business, which was requested at the end of 2006. The Committee will also, as part of its calendar of business, review experience of past risk events and seek to identify any lessons learnt in order to ensure they are embedded into business practices. It also seeks to compare Barclays risk stance with those of others to understand the relative risk being taken.

The Committee also monitors the Group s capital and liquidity position throughout the year to ensure they are within the agreed Risk Appetite parameters.

Finally, the Committee regularly reviews how risk is measured within the business in order to ensure it is satisfied with the risk measurement systems in place.

Activities in 2009

During 2009, the Committee undertook the following activities:

Reviewed a full Group Risk Profile Report quarterly.

The Group Risk Profile Report incorporates:

- an economic overview;
- an update on impairment charges and loan loss rates;
- risk appetite utilisation; and

sector limits. Risk models in use in the business must also include more subjectivity and bespoke analysis when rating complex financial structures. Action is underway in all these areas.

Mandate and Scale Limits

The Committee reviewed the sectoral limits in place in both the Wholesale and Retail Credit Risk Sectors. These limits include commercial property caps (by geography), leveraged finance limits, high yield underwriting caps, limits to loans to lower grade names or credit scores and stress limits by different types of market risk (e.g. interest rate, foreign exchange, commodity).

Governance

The Committee spent time discussing both the Turner Review and the draft and final Walker Review and, in particular, how the recommendations should be reflected in the Committee s terms of reference and way of working. Some minor changes have been made as a result.

sections on retail and wholesale credit risk (by business unit), market risk and operational risk.

Capital and Liquidity

The Committee monitored movement in economic and regulatory capital demand and supply and the level of losses that could be experienced before minimum regulatory capital ratios are breached. The Committee also reviewed and recommended to the Board the liquidity risk appetite of the Group to ensure that sufficient liquidity is held to cover both market-wide and Barclays specific stress scenarios.

Key risk issues

Each year, the Committee ensures it has a forward programme of issues to analyse in detail. During 2009, the Committee analysed the risk profiles and controls in the following businesses:

- the Commodities business in Barclays Capital;
- the Emerging Markets business in GRCB; and
- the US equities business.

The Committee also received regular reports on the Group s exposures to the asset backed securities (ABS) and leveraged credit market exposures and how these were being managed down.

Stress Testing

The Committee reviewed and approved the scenarios to be used in the annual stress testing and reviewed the results of the tests themselves to ensure that the Group would remain adequately capitalised and liquid even under severe stress.

Risk Appetite

Relationship with other Committees

The Committee must work closely with both the Board Audit Committee and the Board HR and Remuneration Committee. In respect of the Board Audit Committee, a schedule has been agreed setting out the key roles of each committee in areas such as capital and liquidity to ensure there is clarity of responsibility. The Committee discussed papers from the risk function on the assessment of business performance on a risk-adjusted basis and the proposals for risk metrics to be used in the 2010 compensation cycle, in both cases prior to submission to the Board HR and Remuneration Committee as an input into compensation decisions.

In conclusion, the Committee seeks to ensure that it achieves a balance each year between:

- comparative analysis reviewing our risk stance compared to that of our competitors in defined areas;
- retrospective analysis we undertake a retrospective review at least once a year of a selected area of risk;
- trend analysis we look once a year at underlying risk trends; and
- technical analysis we review at least once a year one technical area related to the measurement and management of risk.

The quality of papers is vital to the work of the Committee, with papers typically including:

- quantified analysis, including both absolute and relative data;
- information on returns; and
- financial parameters, such as performance against budget and capital utilisation.

Risk appetite is set by agreeing the level of credit risk impairment the Group is prepared to accept in the base case economic forecast for the following year, together with impairment levels that would be incurred in economic scenarios that represent 1:7 and 1:25 events. A Daily Value at Risk limit and stress losses for market risk in 1:7 and 1:25 scenarios is also agreed, together with total loss limits from operational risk.

The financial results of the Group are budgeted in the base case and forecast in the stress scenarios to ensure that they do not breach a series of parameters agreed by the Committee. These parameters include pre-tax profit, return on equity, loan loss rates, capital ratios, leverage ratios, dividend and credit rating. A key focus, given current conditions, was to ensure that the capital ratio parameters (in respect of Tier 1 and Core Tier 1) were met at all times.

Follow up on risk issues

The Committee requested and received a report from the business on the lessons learnt from the sub-prime crisis. The losses in sub-prime arose from a systemic market collapse which was not foreseen by our risk processes, the rating agencies or the broader market. Subsequent events have highlighted areas for improvement in certain of our processes, particularly around the need to improve the aggregation of risk positions across all businesses and to include the potential for discontinuous moves in key parameters when setting

The Committee provides a full written report to the Board after every meeting, which I introduce and answer questions about.

At the beginning of 2010, I handed over the Chairmanship of the Committee to David Booth after four stimulating and challenging years.

Sir Richard Broadbent

Chairman of the Board Risk Committee

9th March 2010

Corporate governance

Corporate governance report

continued

Board Risk Committee (continued)

The Committee met five times in 2009 and Figure 9 shows how the Committee allocated its time at those meetings. The items covered under each heading in Figure 9 are as follows:

Risk Profile/Risk Appetite

- Reviewed the Group Risk Profile Report (including updates on the Group s capital position);
- reviewed updates on liquidity risk;
- reviewed in greater detail the process around setting annual Risk Appetite to establish the effectiveness of the process in responding to significant changes in economic and market conditions;
- reviewed the Risk Appetite for the Group for 2010 and made recommendations to the Board; and
- received regular Future Risk Trends reports, which set out the internal and external indicators that are showing signs of strain and a report on future risk issues.

Key Risk Issues

- reviewed risk trends in tax risk management;
- received regular reports on ABS and leveraged credit market exposures; and
- reviewed the Group s stress testing proposals and outcomes.

Internal Control/Risk Policies

- reviewed the internal control and assurance framework;
- examined the risk control framework, and approved Group policies including the trading book policy, large exposures policy, liquidity policy, retail and wholesale credit impairment policies and the Group s principal risks policy;
- reviewed risk measurement methodologies; and
- received updates on the programme of actions being taken Group-wide to mitigate risk in view of deteriorating economic conditions in our major markets, such as the UK, US, South Africa and Spain.

Regulatory Frameworks

- reviewed the liquidity risk framework and underlying assumptions;

Other

- revised its Terms of Reference, including its role in reviewing risks following the Group s entry into new businesses or geographies; its role in reviewing capital ratios, liquidity risk and its input into remuneration decisions; the increased frequency of risk, capital and liquidity reporting and the setting up of an external advisers panel for the Committee; and
- reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfil its responsibilities.

More information on risk management and the internal control framework can be found in the Risk management report on pages 82 to 146.

Relations with Shareholders

Communicating with shareholders is a key priority for the Board and was particularly important during the continuing financial crisis in 2009. In the normal course of events, the Board aims to keep shareholders up to date and informed about how Barclays is performing and its strategy. During 2009, there was significant additional communication around the sudden fall in the share price in January 2009, the proposed sale of the iShares business and the subsequent sale of BGI, for which we held a General Meeting in August 2009.

Institutional shareholders

Engagement with our institutional shareholders is essential to ensure a greater understanding of and confidence in the medium and longer-term strategy of Barclays and in the Board s ability to oversee its implementation.

The Group Chairman and Senior Independent Director are responsible for ensuring the Board is accessible to major shareholders and that channels for communication are open. They are also responsible for ensuring that the Board is aware of any concerns raised by major shareholders and that their views are taken on board. The Group Chairman, Senior Independent Director, Group Chief Executive and Group Finance Director regularly meet with our investors and the executive Directors and senior executives hold group and one to one meetings with major investors. The Group Chairman, Senior Independent Director and Company Secretary also conduct a series of meetings with the corporate governance representatives of our major institutional shareholders ahead of each AGM. The Investor Relations team organise roadshows, seminars, conferences, presentations and other activities that enable the Directors to engage with investors and some of these are highlighted below:

- over 100 meetings with US institutions following the acquisition of the Lehman Brothers North American businesses;

- over 200 one-to-one meetings with investors (the Group Chairman and Executive Committee members);
- over 40 group meetings with investors; and
- nine presentations at conferences.

In addition, the Investor Relations team also met nearly 150 investors in one to one and group meetings.

Private shareholders

Communication with our private shareholders has also been important during 2009. Personalised information was sent to shareholders for the AGM in April and the General Meeting in August, which included the Notice of Meeting, proxy form, Circular and a question and answer booklet about the proposed sale of BGI. Further documents were available on the Group s website and sent to shareholders on request.

We recommenced paying a dividend in December 2009 and will pay the final dividend for 2009 in March 2010.

The change in law that allows us to communicate electronically with shareholders has enabled us to use less paper, which benefits the environment and lowers distribution costs for the Group. All shareholder documents are available electronically as soon as they are published but shareholders can still receive communications in paper format if they wish. This year we will post the Notice of Meeting and proxy forms to all shareholders.

We encourage shareholders to hold their shares in Barclays Sharestore, where shares are held electronically in a cost-effective and secure environment. Shareholders can use our e-view service to receive their shareholder documents electronically and they can also use this service to get immediate access to information relating to their personal shareholding and dividend history. E-view participants can also change their details and dividend mandates online and receive dividend tax vouchers electronically.

Annual General Meeting/General Meeting

The 2009 AGM was held on 23rd April 2009 at the Queen Elizabeth II Conference Centre in London. In accordance with best practice, all resolutions were considered on a poll and the results were made available on our website the same day. 53.1% of the shares in issue were voted and all resolutions were approved. All Directors are encouraged to attend the AGM and are available to answer shareholder questions. All Directors attended the 2009 AGM, with the exception of Simon Fraser, who was appointed to the Board on 10th March 2009 and had a prior commitment on the day of the AGM.

A general meeting (GM) was held on 6th August 2009, at the Brewery, London, where shareholders were asked to approve a resolution in connection with the proposed sale of the BGI business and ancillary arrangements. 61.6% of the shares in issue were voted on a poll and the resolution was approved. The results of the poll were made available on our website on the same day. The Group Chairman, all of the Executive Directors and two non-executive Directors, including the Deputy Chairman, attended the GM.

The 2010 AGM will be held on Friday 30th April 2010 at the Royal Festival Hall in London. The Notice of Meeting is enclosed with this Annual Report as a separate document. The resolutions will be considered on a poll and the results will be available on our website on 30th April 2010.

Statement on US Corporate Governance Standards

The statement required by NYSE is set out below.

Director independence

NYSE Rules require the majority of the Board to be independent. The Code requires at least half of the Board (excluding the Chairman) to be independent. The NYSE Rules contain detailed tests for determining whether a Director is independent, whereas the Code requires the Board to determine whether each Director is independent in character and judgement and sets out criteria that may be relevant to that determination.

We follow the Code s recommendations as well as developing best practices among other UK public companies. The independence of our non-executive Directors is reviewed by the Board on an annual basis and it takes into account the guidance in the Code and the criteria we have established for determining independence, which are described on page 156.

Board Committees

We have a Board Corporate Governance and Nominations Committee and a Board HR and Remuneration (rather than Compensation) Committee, both of which are broadly similar in purpose and constitution to the Committees required by the NYSE Rules and whose terms of reference comply with the Code s requirements. As the Group Chairman was independent on appointment, the Code permits him to chair the Board Corporate Governance and Nominations Committee and be a member of the Board HR and Remuneration Committee. Except for these appointments, both Committees are composed solely of non-executive Directors, whom the Board has determined to be independent. We follow the Code recommendation that a majority of the Nominations Committee should be independent non-executive Directors, whereas the NYSE Rules state that the Committee must be composed entirely of independent Directors. We comply with the NYSE Rules regarding the obligation to have a Board Audit Committee that meets the requirements of Rule 10A-3 of the US Securities Exchange Act, including the requirements relating to the independence of Committee members. In April 2009, we made an Annual Written Affirmation of our compliance with these requirements to the NYSE. The Code also requires us to have a Board Audit Committee comprised solely of independent non-executive Directors. However, we follow the Code recommendations, rather than the NYSE Rules regarding the responsibilities of the Board Audit Committee, although both are broadly comparable. We also have a Board Risk Committee, comprised of independent non-executive Directors, which considers and discusses policies with respect to risk assessment and risk management.

Corporate Governance Guidelines

The NYSE Rules require domestic US companies to adopt and disclose corporate governance guidelines. There is no equivalent recommendation in the Code but the Board Corporate Governance and Nominations Committee has developed corporate governance guidelines, Corporate Governance in Barclays , which have been approved and adopted by the Board.

Code of Ethics

The NYSE Rules require that domestic US companies adopt and disclose a code of business conduct and ethics for Directors, officers and employees. Rather than a single consolidated code as envisaged in the NYSE Rules, we have a number of values based business conduct and ethics policies, which apply to all employees. In addition, we have adopted a Code of Ethics for the Chief Executive and senior financial officers as required by the US Securities and Exchange Commission.

Shareholder approval of equity-compensation plans

The NYSE listing standards require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions to those plans. We comply with UK requirements, which are similar to the NYSE standards. However, the Board does not explicitly take into consideration the NYSE s detailed definition of what are considered material revisions .

Corporate governance

Remuneration report

Statement from the Chairman of the Board HR and Remuneration Committee

Context

The Committee s goal is to balance the needs of sustaining a competitive business capable of creating future value for shareholders with the crystallisation of current returns to build capital to finance business growth and to pay dividends to shareholders.

This is never an easy balance to strike and trading conditions of the last two years, exceptional levels of political and social interest in remuneration, new fiscal measures and new regulatory requirements that differed in their interpretation in different jurisdictions all complicated our task this year. This has also been a year of significant business growth in investment banking which has materially increased the scope of matters requiring our attention.

During 2009, we have been reviewing our remuneration practices to ensure that they remain appropriate and effective. The context of the review was to ensure that the important principle of pay for performance that underpins our business continues to be implemented in a way that is consistent with and supportive of:

- appropriate management of risk
- delivering returns to shareholders
- strengthening the balance sheet to support current business activities such as lending to our customers, and future business growth
- protecting the business franchise by maintaining our competitiveness in the labour market.

We have drawn directional conclusions from our work to date which will underpin our decisions about structure and quantum of compensation looking forward. These are:

- a significantly greater proportion of incentives will be longer term and more will be deferred in order to contend with greater risk adjustment, industry cyclicality and market volatility the use of equity for employee remuneration remains central to ensuring alignment of shareholder and employee interests

there will be greater emphasis on the detailed consideration of risk associated with individual performance

there is a role for greater exercise of discretion to avoid the perverse results that can arise particularly from long-term schemes being tied to over-precise performance projections. Discretion should be exercised within the context of a robust framework of performance and risk data, and be associated with appropriate levels of accountability.

How the Committee goes about its business

A critical element of our approach is a robust governance framework. The Committee approves forward-looking frameworks based on financial metrics to ensure leadership and planning of remuneration in each of the key businesses. These frameworks incorporate metrics consistent with delivering the businesses business plans; and are assessed against market benchmarks to inform its decision making when approving aggregate remuneration proposals from management as well as the remuneration

proposals of any employee above a specified threshold or falling within the scope of the FSA s Remuneration Code.

To reflect the Group s stated goal of focus on returns over growth, the return we generate on risk-weighted assets was added in 2009 to the key metrics of financial performance used in these frameworks. Our metrics include compensation as a percentage of pre-compensation PBT and of net revenues. We also monitor absolute compensation per employee.

The Committee s decision making is also informed by input from the Group Finance Director and, more recently, the Chief Risk Officer directly to ensure that the level of risk within the business and the quality of underlying profits have been considered. The Committee has also considered the impact on profits from a number of factors including use of Central Bank and government schemes, higher liquidity requirements and the shape of the yield curve.

The Committee also reviews the structure as well as the quantum of compensation, with particular attention on levels of deferral, the mix of annual and long-term incentives and the proportion of equity relative to cash.

In reaching its final decisions, the Committee uses its discretion, informed by an assessment of performance and risk within the context of a strong, risk-adjusted culture, and underpinned by robust governance processes. Market benchmarking is an important but not the only input in supporting the Committee s objective to pay the minimum amount consistent with maintaining competitiveness and long-term shareholder value creation.

Subsequent to each year, we look back and review the extent to which our decisions met our objectives and seek to learn lessons for the coming year.

The Committee retains independent advisers to support it in its work.

2009

The performance of Barclays during 2009 is described in detail in the Group Chief Executive s business review. Barclays delivered profit before tax of £11.6bn, 92% up on 2008. The underlying profits of the Group were also very strong, increasing 243% to £5,634m from £1,643m. In addition, excellent progress was made in the following areas:

Core Tier 1 ratio increased from 5.6% for 2008 to 10.0% for 2009

the balance sheet reduced by 33%

adjusted gross leverage decreased to 20x compared to 28x in 2008 and the Group liquidity pool increased to £127bn compared to £43bn in 2008

gross new lending to UK households and businesses totalled £35bn during 2009

the payment of dividends resumed with a final dividend of 1.5p per share, giving total declared dividends for 2009 of 2.5p per share.

Our decisions on discretionary pay in 2009 properly reflect this performance. The increase in incentive compensation in the investment banking business was materially less than the increase in total income (with the ratio of total compensation to total income falling from 44% in 2008 to 38% in 2009); and the cost to net income ratio was brought down even more sharply.

In addition, there was a significant increase in the use of deferral, equity and long-term awards, particularly to senior executives. Around 5,000 employees will have a proportion of their remuneration delivered as long-term awards. All discretionary remuneration for members of the Group Executive Committee and all members of Barclays Capital Executive Committee will be delivered over a three-year period and subject to clawback.

Long-term awards take the form of equity or cash, paid over three years. 73% of the long-term awards from the 2009 pay review are in the form of equity. Two new plans have been introduced for the purpose of making long-term awards below the executive Director level, the Share Value Plan and Cash Value Plan. These are described in further detail in the following report.

We are compliant with the FSA Remuneration Code and the Financial Stability Board Implementation Standards endorsed by the G20 and have applied these to the decisions of the 2009 pay review. The overall quantum of remuneration is also consistent with the FSA s minimum capital requirements. A direct and intended consequence of our 2009 pay decisions has been the further strengthening of our Core Tier 1 capital ratio.

The compensation pool has been managed in such a way that the UK Bank Payroll Tax cost broadly equates to a reduction in the size of the pool, with the reduction being borne by senior executives. The cost to the Group of the UK Bank Payroll Tax in respect of 2009 cash compensation is £190m, and £35m is being provided in respect of certain prior year awards which may fall within the proposed legislation.

The following approach has been taken on executive Directors remuneration:

- appropriate consideration was given to non-financial measures as well as risk considerations in the assessment of executive Directors performance
- zero annual performance bonus for the Chief Executive and the President. This is the second successive year that they have advised the Board that they wish to decline any annual bonus awards
- no long-term award for the Chief Executive. This is the second successive year that he has advised the Board that he wishes to decline any long-term award
- current executive Directors who have long-term performance shares due to vest and be released in 2010 intend to agree to voluntary clawback arrangements operating over a further two years.

These outcomes for executive Directors were carefully considered and seek to ensure an appropriate share of value between employees and shareholders, with full consideration also being given to the requirements of other stakeholders such as regulators and governments. They follow on from the unequivocal outcomes in respect of 2008: no salary increases or annual performance bonuses, long-term awards 64% lower than 2007 with no awards for the Chief Executive and President, and the vesting of long-term awards to executive Directors due to be released in 2009 being deferred for a further two years subject to additional financial performance over that period.

Activities in 2009

The Committee exercised effective governance in 2009, meeting 14 times to review remuneration practices, frameworks, regulatory developments and market data and advice from external consultants.

In addition to the wider review of remuneration arrangements, the key activities were as follows:

- approval of annual remuneration packages including incentive awards for executive Directors and other senior executives as part of the 2009 pay review
- approval of senior executive remuneration packages on appointment, promotion and termination
- approval of aggregate incentive funding for each of the major businesses
- assessment of performance against relative TSR, cumulative Economic Profit and other financial performance targets to determine the vesting level under performance share and other long-term awards
- selection of performance metrics and calibration of targets for long-term awards
- preparation, review and approval of the Remuneration Report.

Report

The following report of the Committee provides further explanation of the current remuneration governance and arrangements for executive Directors and is divided into the following sections:

- Committee remit, members and advisers
- Remuneration policy, decisions and governance
- Executive Directors remuneration
- Non-executive Directors remuneration
- Former Directors remuneration
- Share plan descriptions.

As required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Group s auditors, PricewaterhouseCoopers LLP, have audited the information contained in Tables 1b, 3, 5, 10, 11, 14, 16, 17, 18 and 19 of the Committee s report.

The Committee unanimously recommends that you vote at the 2010 AGM to approve the Remuneration Report as all Directors will be doing with their own Barclays PLC shares.

On behalf of the Board

Sir Richard Broadbent

Chairman, Board HR and Remuneration Committee

9th March 2010

Corporate governance

Remuneration report

continued

Board HR and Remuneration Committee remit and membership

The Committee provides governance and strategic oversight of executive and all other employee remuneration, Barclays Human Resources activities and senior management development. The Committee s terms of reference are available in the Corporate Governance section of the website *http://www.aboutbarclays.com*. The terms of reference were revised in February 2010 in the light of best practice and to take account of regulatory and corporate governance developments. The Committee met formally 14 times during 2009. The Chairman of the Committee presented a report to the full Board on each meeting. A report on the Committee s activities is set out on page 161 as part of the Corporate Governance Report.

The members of the Committee are Sir Richard Broadbent (Committee Chairman), Marcus Agius (Group Chairman), Leigh Clifford, Sir John Sunderland and Simon Fraser who was appointed to the Committee with effect from 1st May 2009.

The non-executive Directors who are Committee members are considered by the Board to be independent of management and free from any business or other relationship that could materially affect the exercise of their independent judgement. Marcus Agius, the Group Chairman, is also a member and he was considered independent on appointment to the Board.

Advisers

Remuneration Policy

The aims of the Barclays Remuneration Policy are to:

1. Attract and retain those people with the ability, experience and skill to deliver the strategy.

2. Create a direct and recognisable alignment between the rewards and risk exposure of shareholders and employees, particularly executive Directors and senior management.

3. Incentivise employees to deliver sustained performance consistent with strategic goals and appropriate risk management, and to reward success in this.

4. Deliver compensation that is affordable and appropriate in terms of value allocated to shareholders and employees.

5. Encourage behaviour consistent with the principles that guide Barclays business:

The Committee s work is supported by independent professional advice. The Committee reviews the appointment of advisers each year. Towers Perrin MGMC (now Towers Watson) were re-appointed by the Committee in 2009.

Any potential conflicts of interest the advisers may have are disclosed to the Committee. In addition to advising the Committee, Towers Watson provided remuneration benchmarking data to the Group.

The Group Chief Executive, the Human Resources Director, the Compensation and Benefits Director and, as necessary, members of the Executive Committee, also advise the Committee, supported by their teams. No Group employee is permitted to participate in discussions or decisions of the Committee relating to his or her own remuneration.

i) Winning together

Doing what is right for Barclays, its teams and colleagues, to achieve collective and individual success.

ii) Best people

Developing talented colleagues and differentiating compensation to reflect performance.

Doing what is needed to ensure a leading position in the global financial services industry.

iii) Customer and client focus

Understanding what customers and clients want and need and then serving them brilliantly.

Executive Directors remuneration alignment of interests with shareholders

Figure 1 shows the aggregate total direct remuneration of the current executive Directors for 2007, 2008 and 2009 compared to the indicative fair value movements on the current executive Directors aggregate share-based remuneration and beneficial interests in Barclays PLC shares from 1st January 2007 on a cumulative basis. The performance of Barclays share price is shown for context. The chart shows that the current executive Directors interests have decreased in value by £62m over 2007, 2008 and 2009 as a consequence of the movement in Barclays share price.

In addition to the interests in Barclays PLC shares above, Robert E Diamond Jr held equity interests in BGI Holdings which were disposed as part of the sale of BGI as set out on page 178.

Total Shareholder Return

Figure 2 shows the value, at 31st December 2009, of £100 invested in Barclays on 31st December 2004 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends. The FTSE 100 Index is a widely recognised performance comparison for large UK companies and this is why it has been chosen as a comparator to illustrate Barclays TSR. The graph shows that, at the end of 2009, a hypothetical £100 invested in Barclays on 31st December 2004 would have generated a total loss of £40 compared with a gain of £35 if invested in the FTSE 100 Index.

iv) Pioneering

- Driving new ideas, especially those that make Barclays profitable and improve control.
- Improving operational excellence.
- Adding diverse skills to stimulate new perspectives and bold steps.

v) Trusted

- Acting with the highest levels of integrity to retain the trust of customers, shareholders, other external stakeholders and colleagues.
- Taking full responsibility for decisions and actions.
- Reflecting the operation of independent, robust and evidence based governance and control and complying with relevant legal and regulatory requirements.

The Committee keeps the Remuneration Policy and arrangements, as detailed in this report, under review to ensure that Barclays programmes remain competitive and provide appropriate incentive for performance.

Remuneration decisions

Our Remuneration Policy provides a framework for the Committee in carrying out its work including remuneration decisions in relation to executive Directors.

One of the core elements of Barclays approach is to deliver compensation that is affordable and appropriate in terms of value allocated to shareholders and employees, with full consideration also being given to other relevant stakeholders such as customers, regulators and governments. When making compensation decisions, Barclays balances the views of these stakeholders with the need to be able to attract, retain and incentivise talent in a competitive market.

A particular focus during 2009 has been to ensure that our approach to discretionary pay awards for 2009 is compliant with both the Financial Services Authority Remuneration Code and the Financial Stability Board Implementation Standards, and that aggregate funding decisions balance a number of factors including the need to continue to strengthen capital ratios, to invest in the business, to recommence dividend payments and to protect the business franchise.

We are committed to the principle of pay for performance. A key element of ensuring the link between pay and performance on an individual basis is the robust performance assessment framework operated across the Group. Employee behaviours are considered in the context of the Guiding Principles set out above which are incorporated into our Remuneration Policy. The extent to which employee behaviour accords with these standards is assessed as part of the performance assessment framework, which includes an examination of the employee s performance from both a financial and non-financial perspective. Performance against these areas helps to reinforce the right behaviours and so mitigate operational and reputational risks. The resulting performance ratings have a direct impact on all individual compensation decisions.

At an aggregate level, in order to ensure that a link is maintained between pay and performance, incentive funding decisions are made by reference to a number of quantitative and qualitative measures and are determined at the discretion of the Committee. During 2009, the role of Risk and other control functions in remuneration governance was enhanced and the process for setting the remuneration of control functions was formalised.

The exercise of informed discretion plays an important role in the assessment of performance in the context of all our remuneration decisions, rather than using a formulaic approach which could incentivise inappropriate behaviours.

Pay and employment conditions elsewhere in the Group are taken into account by the Committee in determining the remuneration packages for executive Directors. The general approach is the same across the Group, namely decisions are made on a total compensation basis (base salary, bonus and long-term awards) against the relevant market. We seek to provide market competitive retirement and other benefits and eligible employees have the opportunity to participate in share plans.

Remuneration Policy governance

To ensure appropriate operation of the Remuneration Policy, the Committee has established frameworks for the governance of remuneration in each of the major businesses and for the Group as a whole. These frameworks were reviewed in 2009. The current frameworks set out key financial ratios achieved by Barclays and its competitors and have been used by the Committee to inform its decision-making process when approving aggregate remuneration spend, including bonus and long-term incentive expenditure, strategic investment for new hires, and the remuneration arrangements of any employee with annual total remuneration equal to or in excess of £750,000. Going forward, compensation of employees within the scope of the FSA Remuneration Code s particular remuneration structure requirements will also be individually approved by the Committee. The reporting of senior hires and leavers to the Committee has also been enhanced.

For individual remuneration decisions made by the Committee, including those for executive Directors and other key senior management, the Committee reviews each element of remuneration relative to performance and to the practice of other comparable organisations. Remuneration is benchmarked against the markets in which we compete for talent. This includes benchmarking against other leading international banks and financial services organisations, and other companies of a similar size to Barclays in the FTSE 100 Index.

Given the materiality of Barclays pension arrangements, the Committee operates a specific framework for the management of pensions to ensure proper oversight. The Global Retirement Fund Governance Framework is operated to ensure best practice in respect of regulatory compliance, governance, investment and administration. In the second half of 2009, Barclays announced the closure of its UK final salary pension schemes to future accrual in order to reduce current and future UK pension liability risk and to ensure that our pension arrangements are sustainable and affordable over the long term. Details of the pension arrangements in place for executive Directors are set out on page 178 and for other employees on page 236.

Corporate governance

Remuneration report

continued

Executive Directors remuneration

Table 1a explains the purpose of each element of remuneration and Table 1b shows executive Directors remuneration in respect of 2009 and 2008.

Base salaries

Table 2 shows the annual base salaries for the current executive Directors.

Table 2: Base salary	Base salary at 31st December 2009 £000	Base salary at 1st April 2010 £000	Date of previous increase
Executive Directors			
John Varley	1,100	1,100	1st April 2008
Robert E Diamond Jr	250	250	1st March 1999
Chris Lucas	650	800	1st April 2008

Robert E Diamond Jr has, since 1st January 2009, received his base salary in US dollars converted from sterling into US dollars using an average sterling/US dollar exchange rate for 2008 of 1.86.

In respect of Chris Lucas, having regard to the levels of salary and total compensation in comparable organisations, the Committee approved the increase to base salary set out above, effective from 1st April 2010.

Annual cash bonus and deferred share awards

The maximum bonus opportunity for executive Directors is tailored to the relevant market; this is typically 250% of base salary. The annual bonus award is made by reference to a qualitative and quantitative assessment of performance with the latter assessment comprising the majority. For 2009, more emphasis was placed on non-financial measures as well as risk considerations.

ESAS is a deferred share award plan operated in conjunction with various Group bonus plans for executive Directors and certain other employees, subject to trustee discretion. For 2009, the use of ESAS was significantly scaled back as the new Share Value Plan and Cash Value Plan are being operated for deferrals across the Group. The future use of ESAS is under review. Further detail of these plans is included on pages 183 to 185.

The Board, through the Committee, formed the view that annual bonus awards for John Varley and Robert E Diamond Jr were merited based on both Group and personal performance. However, out of consideration of the continued impact of the economic downturn on many clients, customers and shareholders, combined with the fact that banks and bankers pay remain matters of intense public interest and concern, both advised the Board that they wish to decline any such awards for the second successive year.

For Chris Lucas, a recommendation will be made to the ESAS trustee that

Table 1a: Executive Directors annual remuneration

Element	Purpose	Delivery	Programme summary	When normally received/ awarded
Base salary	To reflect the market value of the individual and their role	Cash Monthly Pensionable	Reviewed annually, with any increases typically effective on 1st April	Paid in year
Annual performance bonus (cash)	To incentivise the delivery of annual goals at the Group, business division and individual levels	A proportion of annual performance bonus paid in cash Non-pensionable	Based on annual performance of the Group as a whole, business unit performance where relevant and individual performance	Normally paid in the following financial year
Total cash	Sub-total of the above			
Deferred share award (ESAS)	To align annual performance with shareholder value and increase retention	A proportion of annual performance bonus recommended as a deferred share award under ESAS Non-pensionable	Discretionary award of shares to be deferred for three to five years. No performance condition on release, as a deferred share award 20% bonus shares releasable after three years, a further 10% after five years Dividends normally accumulated during deferral period	Normally awarded in the following financial year
Long-term incentive (PSP)	To reward the creation of sustained growth in shareholder value	Award of shares that vests after three years, subject to performance conditions Non-pensionable	Discretionary awards Participation reviewed annually Barclays performance over three years determines the performance shares eligible for release to each individual Dividends normally accumulated during deferral period	Normally awarded in the following financial year
Total direct remuneration	**Total of the above**			
Pension (or cash allowance)	To provide a market competitive post-retirement benefit	Deferred cash or cash allowance Monthly	Non-contributory, defined benefit scheme and/or defined contribution scheme, or cash allowance in lieu of pension contributions	Paid or accrued during year
Other benefits	To provide market competitive benefits	Benefit in kind, or cash allowance Non-pensionable	Benefits include private medical insurance, life and disability cover, accommodation overseas when	Received during year

		required for business purposes, use of company-owned vehicle or cash equivalent and tax advice
Sub-total in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Total of base salary, annual performance bonus (cash), pension cash allowance and other benefits	

100% of his annual bonus is delivered as a share award under ESAS which is deferred over a three- to five-year period. The ESAS amounts shown in Table 1b show the basic allocations, but do not include bonus shares. Including the maximum potential 30% bonus shares, the award in respect of 2009 will have an initial value of £1,950,000 for Mr Lucas. Typically, 20% bonus shares become releasable after three years, with the full 30% bonus shares only normally releasable five years from the date of award. Following consultation with the Committee and mindful of evolving best practice and regulatory developments, Mr Lucas intends to write to the ESAS trustee in respect of any awards made in 2010. He proposes that, in its absolute discretion, the trustee may take into account personal misconduct and/or any material misstatement of the 2009 financial results when considering whether to release any shares under these awards to him at the scheduled release dates.

PSP awards due to vest in 2010

For the PSP awards made in relation to the 2007-2009 cycle, the TSR condition was not met and the EP condition was met. As a result, awards that are scheduled to vest in March 2010 (at the absolute discretion of the PSP trustee) are due to vest at 1.5 times the initial award (maximum is 3 times). This represents a reduction in value of approximately 75% of the maximum value of the number of shares that could vest at the share price at award.

After consultation with the Committee, the current executive Directors intend to write to the Committee agreeing voluntary clawback arrangements to operate for a two-year period following vesting of their awards. By this voluntary agreement, the executive Directors will repay the value of the shares at the end of the two-year period (after deduction of taxes paid) should a performance condition, to be agreed and assessed by the Committee, not be met.

Proposed awards in 2010

It is proposed that Bob Diamond and Chris Lucas are awarded a performance share plan award in 2010 which will be based upon performance over the three-year period 2010 to 2012.

The Board, through the Committee, formed the view that a performance share plan award for John Varley was merited, based on both Group and personal performance. However, John Varley advised the Board that he wishes to decline any such award.

The number of shares awarded to date and the performance conditions relating to each award are set out below.

The PSP awards are shown in Table 1b at the fair value of the recommended awards.

Table 1b: Executive Directors annual remuneration	John Varley		Robert E Diamond Jr		Chris Lucas	
	2009	2008	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000

Base salary	**1,100**	1,075	**250**	250	**650**	638
Annual performance bonus (cash)	**0**	0	**0**	0	**0**	0
Total cash	**1,100**	1,075	**250**	250	**650**	638
Deferred share award (ESAS)	**0**	0				
Long-term incentive award 2010-2012 (PSP)	**0**	0	**0**			